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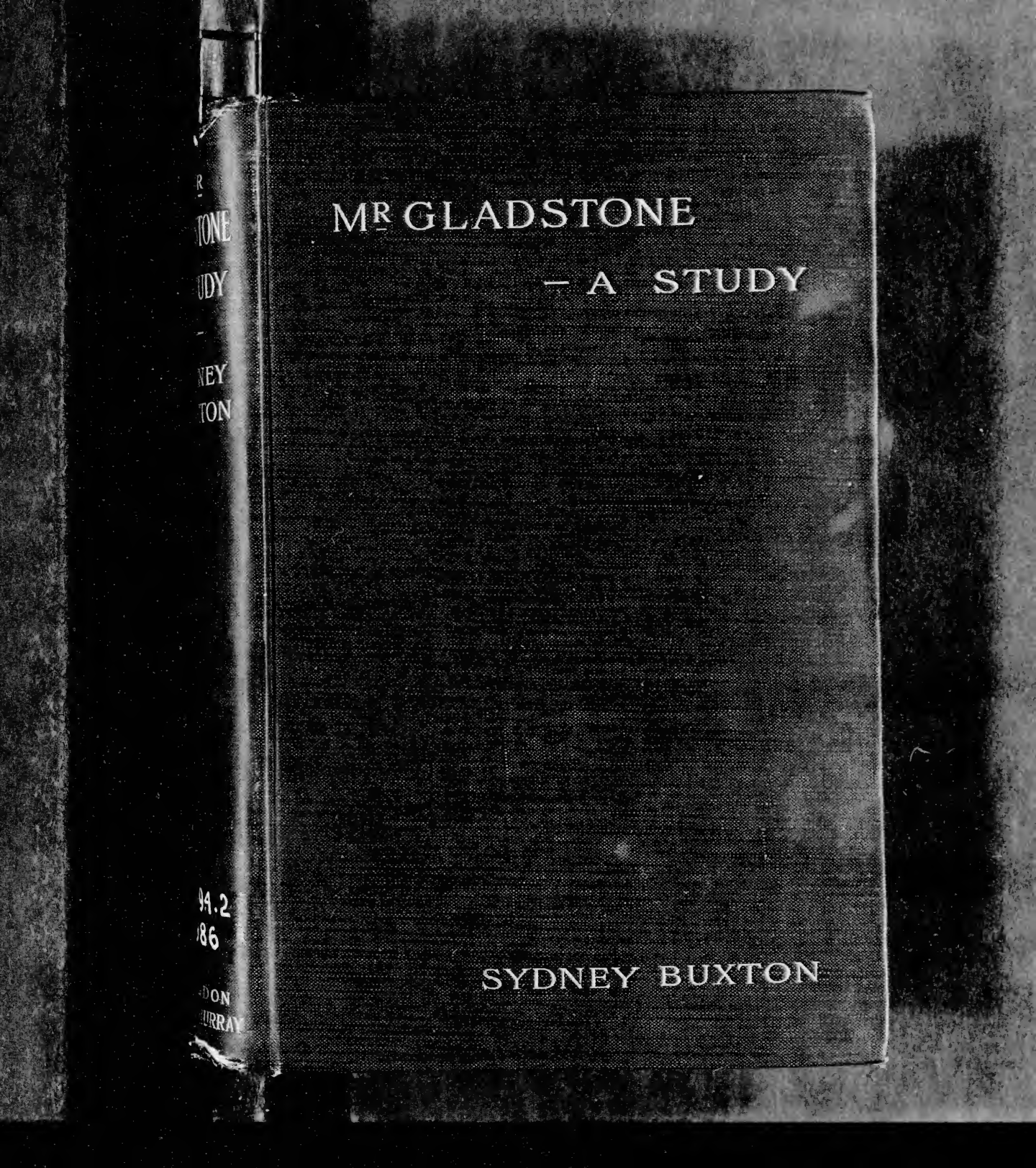
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INTRODUCTION

THE following pages are offered, with all deference, as a contribution towards the study of Mr. Gladstone.

They deal with one aspect only of his career and character, and do not, I need hardly say, attempt in any degree to anticipate Mr. Morley's Biography of the great Statesman. But Mr. Gladstone's work at the Exchequer can be considered somewhat apart from his career as a whole. It was, moreover, the least disputed portion of his life's work, and is far enough removed from present-day controversies to enable an estimation to be made without prejudice or partiality.

I am much indebted to friends for advice and assistance, and I desire especially to thank Mr. Bernard Mallet and Mr. George Barnes for the valuable help they have rendered me.

The substance of this little Book was contained in two Articles that appeared in the *Fortnightly Review* for April and May of this year. The Articles have been considerably enlarged, and to a certain extent re-written; and Tables, which may be found useful, have been added.

S. B.

7, Grosvenor Crescent
July, 1901

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MR. GLADSTONE
AS CHANCELLOR OF THE EXCHEQUER

CHAPTER I.

EARLY YEARS

IT is, as yet, premature to predict the position that Mr. Gladstone will finally hold among English statesmen, or to estimate the mark that he will have left on the history of his Country. But it is legitimate to believe that Time, which will bury in oblivion much that may now be thought of importance, will, in so doing, bring more prominently into relief the great work that he accomplished in Finance. Indeed, it is not unlikely that on this his chief reputation as a constructive Statesman will ultimately rest.

It is natural enough that Mr. Gladstone's fame as a Finance Minister should have been,

for the present, somewhat blurred and effaced by his later political career. His two great Budgets were those of 1853 and of 1860, the one fifty, the other forty years ago—and much has happened since then.

Born in 1809, elected in 1832, the first half of his political, and especially of his ministerial life, first at the Board of Trade and then at the Exchequer, was largely, almost exclusively, devoted to questions of commerce and of finance. So that when, in 1865, on the death of Lord Palmerston, he became, at the age of fifty-seven, and with thirty-three years of Parliamentary life behind him, Leader of the House of Commons and prospective Premier, he was indeed recognised as a master of finance; but, for the rest, he was somewhat of an unknown quantity. If, in 1865, he had ceased to be, history would have classed him as a great Chancellor of the Exchequer, and as nothing more. But his quadruple Premiership, his twenty-eight years' Leadership (with intervals) of the Liberal party, his Foreign policy, his Home policy, his Irish policy, his successes and his failures, brought fame, notoriety, and antagonism,

which overshadowed the more durable work of his earlier years.

There have been, since the Revolution, four great Finance Ministers—Walpole, Pitt, Peel, and Gladstone. Others there have been who have done signal service to the Country at the Exchequer, but none who approach within measurable distance of these four.

Walpole was Prime Minister and Chancellor of the Exchequer for twenty consecutive years. Pitt was Prime Minister and Chancellor of the Exchequer for seventeen consecutive years, and for nearly two years besides. Peel was Prime Minister, all told, for five years, and was only a short four months, in 1834, at the Exchequer at all—a remarkable fact. Mr. Gladstone was Chancellor of the Exchequer for ten years, Prime Minister and Chancellor of the Exchequer for another three, and Prime Minister without being Chancellor of the Exchequer for yet another eleven years. He exercised, therefore, a longer period of control, direct or indirect, over the finances of the Nation than any other British Statesman.

Mr. Gladstone's official introduction to questions financial was due to Peel's discernment.

When the Tory Government was formed in 1841, he was made, though against his will,[1] Vice-President of the Board of Trade, and a Privy Councillor. In 1843 he succeeded to the Presidency of the Board with a seat in the Cabinet. Thus he was, as he subsequently expressed it, "at the very kernel of the most interesting operations in progress year by year, with continually waxing courage towards the emancipation of industry"; and he was enabled to assist his Chief and his Master, both by support in Council and actively in the House, in initiating and carrying through the far-reaching fiscal reforms of the period.

But in January of 1845 came the somewhat Quixotic resignation of office over the Maynooth Grant; and, in the December following, when his appointment as Colonial Secretary in the reconstructed and freshly converted Cabinet

[1] He wrote to Peel a lengthy letter (Sept., 1841), which is rendered interesting and curious by after-events. In it he reiterated his ignorance and his unfitness for the post offered him, and added: "I feel that all my habits of thought and action have been so far cast in a different mould, and have attained such a degree of fixedness, that I should find it hardly practicable to give myself to questions of trade and of finance in a manner and degree befitting the expectation that they are hereafter permanently to form my staple occupation."—*Life of Peel* ii. 513.

necessitated the vacation of his seat, he did not seek re-election, as Newark was under the control of a protectionist patron. Thus, during the most critical and enthralling stages of the Free Trade controversy, Peel was deprived of his help, and the House of Commons of his services. Returning to the House, at the general election of 1847, as member for Oxford, he formed one of the small band of Peelites, who, after their leader's death in 1850, unattached, capricious, unreliable, but brilliant and distinguished, were for a time (as Mr. Gladstone himself has described them) somewhat of a public nuisance.

The Russell Ministry—a Whig family party—had succeeded Peel in 1846, and scrambled along as best they could until 1852, when Palmerston turned them out. Thereupon Lord Derby formed the "Who Who" Government, with Disraeli as Chancellor of the Exchequer and Leader of the House. In December the whilom Protectionist Ministry produced their Budget. The policy of "unrestricted competition" was accepted and adopted, but the financial policy of the country "was to be assimilated to our new commercial system."

Shipowners, Sugar planters, the Landed interest, were to be "compensated" for the storm and stress entailed upon them by the abolition of Protection. The General Consumer was to have his tea "cheapened" by halving the duty. The Income Tax payer was to have his burden lightened by readjustment, and by an attempted discrimination between permanent and precarious incomes. The House Duty alone was to be increased.

But the Country wanted something more. They required, as Mr. Gladstone said, "a full, final, and solemn settlement of the question of free trade"; and they did not care to leave this settlement in the hands of the High Priests of Protection, even though these were now content to bow the knee to Baal. The amazing Budget, which was to "relieve everybody at nobody's expense," was severely attacked. On the final night, at a late hour and at great length, the Chancellor of the Exchequer answered his critics with jeers, flouts, and gibes. This was more than Peelite blood could stand; and, unexpectedly and unprepared, Mr. Gladstone rushed into the breach, and, in a single speech, decided the issue, destroyed the Budget and the renegade Government, and placed himself

in the first rank as a debater and as a master of finance. This was, moreover, the first encounter between the two men—wide as the poles asunder in character and disposition—who, in after-years, became rival leaders and life-long antagonists.

The Coalition Government of Lord Aberdeen followed. In it the Peelites (Aberdeen himself was a Peelite) were temporarily absorbed, and Mr. Gladstone — though not without strong protests from some quarters—became Chancellor of the Exchequer. The outlook was favourable. Aberdeen was a Peace Minister; Clarendon at the Foreign Office was a safe man; the fire-eater, Palmerston, was marooned in the Home Office. The Great Exhibition had seemingly ushered in an era of peace and goodwill. The Ministry were strong in *personnel* and Parliamentary position. Consols were at par, the rate of interest was unprecedentedly low, trade and commerce were healthy and expanding. All the omens were favourable, and the new Chancellor of the Exchequer was not the man to neglect the opportunity. If viewed with trepidation by some of his colleagues, he could count on the support and

approbation of his fellow-Peelites, and on the easy-going sympathy of his Chief.[1] He produced a Budget which marks an epoch in fiscal and financial reform, and which ranks with Peel's famous efforts of 1842 and 1845, and with his own Budget of 1860.

[1] "Graham seemed in excellent spirits about their political state and prospects, all owing to Gladstone and the complete success of his Budget. The long and numerous Cabinets, which were attributed by the *Times* to disunion, were occupied in minute consideration of the Budget, which was there fully discussed, and Gladstone spoke in the Cabinet one day for three hours, rehearsing his speech in the House of Commons, though not quite at such length."—*Greville*, vol. vii. p. 63.

CHAPTER II.

1853, AND AFTER

THE Budget of 1853 was introduced on April 18th in a five hours' speech. The Financial Statement showed all the grasp of principle, the mastery of detail, the lucidity and skill in presenting arguments and figures, that had been so conspicuous in the early forties in the exposition and defence of the fiscal measures of those years. But it was more than this. It astounded, delighted, and fascinated the House by its wealth of eloquence, by its persuasive reasoning, by its unhesitating courage, and by the living interest which it breathed into the dry bones of taxation and tariffs. The Country, it was evident, not only possessed a great Chancellor of the Exchequer, but a great and eloquent exponent of Finance.[1]

[1] "People often misunderstood Lord John Russell, and it was hinted, in 1853, that he was jealous of Mr. Gladstone's success. Here is his true opinion written to Lady John: 'Gladstone's speech was magnificent. . . . It rejoices me to be a party to a large plan, and to do with a man who seeks

The estimated gross revenue for the coming year was put at £57,100,000, the expenditure at £56,300,000, giving a surplus of £800,000. But the smallness of the available surplus did not deter the Chancellor of the Exchequer from dealing with the financial position in a broad and comprehensive spirit.

The basis of the Budget scheme was twofold. First, to provide, by a comprehensive arrangement of the national finances extending over seven years, for the gradual reduction and the ultimate extinction of the Income Tax; and, meanwhile, further to utilise it as a means whereby financial reforms and remissions of taxation could be accomplished. Secondly, again to overhaul the whole complicated system of Import duties—prohibitive, protective, differential—and to carry considerably further the policy of fiscal reform, making for that simplicity of taxation and freedom from restraint, which, initiated by Huskisson and Robinson, and tinkered at by Althorp, had been manfully adopted by Peel.

A few words will suffice here on these two points; for, in subsequent chapters, Mr. Gladstone's action in reference to Customs and Excise reforms,[1] his policy in regard to the Income Tax,[2] and his dealings with other branches of finance, will be more fully discussed.

to benefit the Country, rather than to carry a majority by concessions to fear.'"—*Life of Lord J. Russell*, vol. ii. p. 170.

In 1853 a great stride was taken in the direction of complete fiscal freedom of trade, though it was not until 1860 that the principle, in its entirety, was fully and finally adopted. But some hundred and forty minute, unproductive, harassing, and vexatious import duties were now abolished; while nearly twice that number were reduced, with a view to their subsequent extinction. Generally, it may be said that the duties on articles of commerce, of clothing, of comfort, and of food were repealed or reduced.

But the reform of the Tariff was but a part of the financial operations of this year. The Excise duty on Soap was abolished at a loss of a million of revenue. The Soap duty was one of those pernicious Excise duties which were freely imposed about the beginning of the eighteenth century.[3] An Excise duty

[1] See p. 80. [2] See p. 112.

[3] The Soap duty in 1853 was at the rate of 1½*d.* a pound on "hard," 1*d.* on "soft" soap, plus the 5 per cent. Baring levy of 1840. Althorp, in 1833, had reduced the duty from 3*d.* and 1¾*d.* respectively.

which, as Mr. Gladstone said, "entailed an immense loss by fraud, which was most injurious to the comfort and to the health of the people, and which seriously crippled the productive power" of the trade. A glance at a hoarding, or at the walls of any wayside station, shows that the enterprise of the soap manufacturers has, since its repeal, fully recovered from the crippling effect of the duty.

Then the Tea duty of 2*s.* 2¼*d.* a pound was at once reduced to 1*s.* 10*d.*; and was subsequently to fall to 1*s.* 6*d.* in 1854, to 1*s.* 3*d.* in 1855, and to a shilling in 1856, at which rate it was to remain until 1860. Further, under an arrangement of 1848, a gradual fall was taking place in the duty on Foreign Sugar, which by 1854 would be equalised to the charges on Colonial Sugar. This fall was to continue. The Life Insurance duty was reduced from 2*s.* 6*d.* to 6*d.* per cent. The stamp duty on Advertisements in newspapers disappeared.[1] The taxes on hackney carriages and on post-

[1] The duty was at the rate of 1*s.* 6*d.* (reduced in 1833 from 3*s.* 6*d.*) for each advertisement, without regard to its length, and was producing £181,000 a year. The Newspaper Tax, at the rate of a penny a sheet (reduced from 4*d.* in 1836), was repealed in 1855 at a cost of £488,000.

horses were simplified and reduced. The duty on dogs was reduced to 12*s.* and made uniform. The "Assessed Taxes" on armorial bearings, servants, carriages, horses, etc.—complicated, confusing, and much evaded, and levied under no less than seventy-two Acts of Parliament—were simplified, and placed on a rational and intelligible basis. This reform was carried to completion by Mr. Lowe in 1869, when he changed the Assessed taxes into Licence duties, and much improved the levy. The Stamp duties levied on business documents and transactions were simplified, improved, and extended. A system of penny receipt stamps in lieu of some of the complicated and progressive stamp duties was introduced—a profitable plan, which has since been widely extended.[1]

The total remissions under these various heads would, when in full operation, involve a gross loss of revenue of five and a half millions, the whole of which it was, however, hoped and believed would be ultimately recouped to the Exchequer from the sensible stimulus given to trade and consumption. Against these remissions, a Succession duty

[1] See p. 43.

was imposed — realty was to contribute its quota to the Death Duties.[1] The Scotch and Irish Spirit duties were raised, though not quite to the level of the English duty.[2] The limit of exemption on the Income Tax was lowered from £150 to £100, but on incomes between £100 and £150 the tax would be at the rate of fivepence only. The Income Tax was also, for the first time, extended to Ireland. When re-imposing the Income Tax in 1842, Peel stated that, in the then "state of society" in Ireland, and with no arrangement, such as existed in Great Britain, for the collection of the tax, its levy would be attended with great difficulty. These difficulties had now disappeared, and there seemed no good reason for continuing to exempt Irish incomes from direct taxation.

Besides all this, by a separate measure, the interest on a portion of the National Debt was to be reduced by means of a complicated, and, as it turned out, an unsuccessful operation. The Customs Law was simplified, con-

[1] See p. 137.

[2] The Scotch Spirit duties were equalised to the English duties in 1855, the Irish in 1858, and in 1860 the duty on foreign spirits was reduced to an equivalent rate.

solidated, and codified—a great administrative reform.[1]

The Income Tax, which had been re-imposed eleven years before as a temporary tax and for specific purposes, was, for the fifth time, legally expiring. It required no little courage to propose the re-imposition, for a further prolonged period, of a tax so much discredited and disliked; and argumentative skill of no mean order to persuade the House and the Country, against their will, to re-endow the Chancellor of the Exchequer with such an unwelcome impost.

The scheme for the ultimate extinction of the Income Tax in seven years was this. On the one hand, the ordinary expenditure was not expected to increase. At the same time, the Debt charge would diminish to the extent of three and a half millions, due to the second reduction in interest on the "Goulburn stock" converted in 1844, to further savings of interest through annual redemption from surpluses, and to the extinction, in 1860, of certain Annuities, which would result in a saving of over two millions a year. On the other side of the account, there would be an increase

[1] See p. 154 and p. 105 respectively.

in the revenue of two and a half millions, to be derived from the Spirit duties, the Stamp duties, and the Succession duty. The remissions, amounting to five and a half millions, given on Tea, on Sugar, and elsewhere, and in connection with the fiscal reforms, were to recoup themselves. It was confidently anticipated, therefore, that, by 1860, there would be an available surplus of six millions of revenue over expenditure. By that date the Income Tax itself would have fallen to fivepence; and a sum of six millions would be amply sufficient to admit of its repeal.

Such were the proposals made by Mr. Gladstone in his first year as Chancellor of the Exchequer. And it is almost certain that, had peace and prosperity prevailed, and had he remained at the Exchequer, the whole of the financial scheme, immediate and ultimate (exclusive of the Succession duty, which failed to produce more than one-third of the expected revenue), would have been successfully accomplished. But—and this is a just criticism—Mr. Gladstone was characteristically oversanguine in expecting that the unexpected would not happen, and in attempting to carry

out an extended scheme of finance, which only a period of continuous peace, prosperity, and economy could justify. Finance depends largely on expenditure; and "Expenditure depends on Policy"—or the want of it.

Even while the Budget proposals were being laid before the country, diplomacy was at work. The sky rapidly became overcast, a dark cloud came up from the East, which soon burst into a storm, culminating in the Crimean War. A war fought for no intelligible purpose, and leading to no decisive or lasting results; a war, moreover, which involved the country in heavy cost, and which left the expenditure on a permanently higher level. The conversion scheme was wrecked, fresh debt was incurred, the debt charge was increased; taxation had to be imposed, not remitted; the progressive reductions in the Tea and Sugar duties were frustrated; the repeal of the Income Tax was prevented.

So it came about that, in 1854, instead of being able to continue the policy of 1853, and to propose further fiscal reforms and remissions of taxation, a strenuous effort had to be made to meet the now inevitable war expenditure. Mr. Gladstone's reputation had suffered damage

from the partial failure of his plans, and especially from the embarrassing failure of the debt conversion operations; but the courage with which he met recurring liabilites, and the eloquence and skill which he showed in defending and explaining his past and present proposals, speedily re-established his position.

The first Budget of 1854 was introduced in March; the Ultimatum to Russia had been despatched a week before; an expedition of 25,000 men was to be sent to the Crimea. It was too early as yet to make more than the most provisional estimate. The gross expenditure[1] was put at £60,650,000, the revenue at £57,810,000, a deficiency of £2,840,000. The Income Tax, now again utilised as a war tax, was provisionally increased from 7*d.* to 10*d.* to yield £3,300,000, giving a surplus of half a million.

The second and more matured Budget was introduced in May. The additional sum now required for war purposes was put at £6,870,000. The Government thought—as Governments will—that the enemy would be brought to her knees within a month or two,

[1] See Appendix C.

and for an expenditure of ten millions. To their cost, the Nation discovered—as they have lately again discovered—that it takes years instead of months, and scores of millions, to complete the task that they were led to believe would be so easy of accomplishment.

The whole of this additional war expenditure was likewise to be raised by taxation. The Income Tax was increased by a further fourpence, from 10*d.* to 1*s.* 2*d.*; Spirits, Malt, and Sugar were all additionally taxed. Tea alone was to receive exceptional treatment; the fall of duty from 1*s.* 10*d.* to 1*s.* 6*d.*, arranged the previous year, was not to be arrested.

Thus the whole of the war demand in the year of over ten millions, representing, on the then ordinary expenditure of the country of 56 to 57 millions, an addition of no less than twenty per cent., was met by increased taxation.

When he had been in a position to reform and remit, Mr. Gladstone had shown courage and resource; he showed the same qualities in adversity. The happy function of the Chancellor of the Exchequer in distributing his bounty is, he said, "woefully changed when there is a period of war." The time had come,

he added, to show of what mettle the country was made.

"The expenses of a war," he declared, in defending his proposals, "are the moral check which it has pleased the Almighty to impose upon the ambition and the lust of conquest, that are inherent in so many nations. There is pomp and circumstance, there is glory and excitement about war, which, notwithstanding the miseries it entails, invests it with charms in the eyes of the Community, and tends to blind men to those evils, to a fearful and dangerous degree. The necessity of meeting from year to year the expenditure which it entails is a salutary and wholesome check, making them feel what they are about, and making them measure the cost of the benefit upon which they may calculate." "The system of raising funds," he went on to say, "necessary for wars, by loan, practises wholesale, systematic, and continual deception upon the people. The people do not really know what they are doing. The consequences are adjourned into a far future."

He desired, what Mr. Morley has well called, "instructive not vindictive taxation," not to punish, but to bring home the results of war. The worst of it is that such a policy requires courage—and this is not always forthcoming. In this case, however, it was conspicuous.

In 1855 Sir George Lewis raised the Income Tax to 16*d.*, increased the duty on Coffee,

raised the Tea duty to 1*s.* 9*d.*, and imposed further taxation on Sugar and on Spirits. The total direct cost of the war was about seventy millions, of which thirty-eight millions were met from additional taxation, and only thirty-two millions were added to the debt; a very creditable performance.[1]

It is interesting to note that, while the existing duties on various branches of indirect taxation—Tea, Sugar, Coffee, Malt, and Spirits—were considerably raised during the Crimean War, no indirect tax, previously abandoned, was re-imposed. With the exception of the duty on Spirits, which was intended to be permanent, the last of these war duties disappeared in 1864, with the reduction of the duty on Sugar. In 1867 the Debt, through redemption, again stood at the figure it had touched before 1854. Thus were obliterated the last direct marks of the Crimean War. Unlike the Napoleonic War, and unlike, we may fear, the Transvaal War, the war with Russia left no lasting effects on the National finances.

[1] The total cost of the Crimean War has been estimated in several different ways, and I have preferred, as most correct, that of Mr. Chisholm, as detailed in the invaluable *Public Income and Expenditure Report of 1869.*

The war, and the consequent disturbance to trade, severely tested the efficacy of the fiscal and financial reforms of 1853. But they fully responded to the expectations of their author, and the revenue showed striking buoyancy and recuperation. The Customs and Excise, in spite, or in consequence, of remissions to an amount of £1,700,000, recovered not only the whole of this loss, but £700,000 to boot; and the year 1853 ended with a realised surplus of three and a half millions, a sum only once before exceeded. "We should take a narrow view," says Sir S. Northcote, "of the whole policy of the year, if we failed to recognise the immense strength which it imparted to the country, and which enabled us to grapple successfully with the difficulties of the following period. . . . The war, as we acknowledge, revealed to us many imperfections in our military system, but the strain on our finances brought to light nothing but their soundness and their vigour."[1]

[1] *Twenty Years of Financial Policy*, p. 234.

CHAPTER III.

BUDGET OF 1860

IN January of 1855 the Crimean War muddle overthrew Lord Aberdeen, who, with universal acclaim, was succeeded by Lord Palmerston as Premier. The latter took over the rest of the Coalition; but within a fortnight the inconstant Peelites—Gladstone, Graham, Sidney Herbert, and Cardwell—resigned. Sir George Cornewall Lewis, though "strongly disinclined" for the task, went to the Exchequer. Then came for Mr. Gladstone a period of restlessness and indecision: now leaning to one side, now to another; rumour pointed at one moment to a coalition with the Whigs, at another to the occupation of the seat next Disraeli's. His chief Parliamentary interest was to criticise the Budget, and Sir Cornewall Lewis, who, personally and financially, was antipathetic to him. For the rest he played again the part, as a few years before, of a political Sir Galahad, succouring

the distressed stranger and freeing fettered peoples.

Between 1846 and 1859 there were six changes of Ministry, and in 1859 was formed the first stable Government since the resignation of Peel. The two rival Whig chiefs buried the hatchet. Lord Palmerston became Prime Minister, Lord John soon after sinking into Earl Russell. Whigs, Peelites, Leaguers, and Radicals coalesced into a Party and a Government; Cobden alone declining to take office, on the ground that he could not serve under the man whose foreign policy he had always systematically opposed.[1] Mr.

[1] Mr. Cobden was offered the Presidency of the Board of Trade. If he had accepted this Office he would have been in somewhat the same position to Mr. Gladstone as the latter was to Peel in 1842 and 1845, and he would, unquestionably, have greatly assisted and stimulated the work of fiscal reform. On the other hand, the French Commercial Treaty—a great lever for these fiscal reforms—would almost certainly not have been negotiated at this time; the fact that Cobden was a private individual enabling him to initiate and to carry through the negotiations.

It is not likely, however, that Cobden would have long remained a member of the Palmerston Government. "I should be certain to run away," he told Palmerston, "if you were to do anything very contrary to my strong convictions"; and on the Fortification Scheme, or on something else, resignation would have speedily ensued.

Gladstone went again to the Exchequer, and there he remained for seven years and produced eight consecutive Budgets: among the most striking series of financial operations in English history. These eight years mark a great epoch in finance, in which the coping-stone was set to the edifice of fiscal reform, and the whole financial system was placed on a simpler and sounder basis.

Mr. Gladstone's position as Chancellor of the Exchequer under Lord Palmerston was in every way different from that which he had enjoyed under Lord Aberdeen. There was a striking incompatibility of temper between the jaunty septua-octogenarian, immersed in foreign affairs, suspicious of foreign intrigue, and prone to see lions in the path against which costly protection was essential, and the eager, sanguine, serious statesman, whose passion was finance and whose dream was economy. The two men distrusted one another, and the elder, at least, was by no means always loyal to his colleague.

But, in one respect, the Chancellor of the Exchequer was fortunate. If the Whig Premier was antagonistic to Retrenchment, he disliked Reform still more. Activity abroad was suffi-

cient excuse for inactivity at home. Lord John having been allowed to ease his mind by an abortive Reform Bill, the question was placed on the shelf. Party conflict languished; no one desired to displace Lord Palmerston. Thus, though his chief could not give him his sympathy, he could give him Parliamentary time; and Mr. Gladstone was fortunate in having at his disposal that essential adjunct to the success of elaborate Budgets—ample elbow room. So, apart from foreign affairs, Finance held undisputed sway in the early Sixties. The Financial Statement was the event, and the Budget proposals the chief occupation, of the session; and, the wand being in the hands of a magician, public interest and popular imagination were excited by them in a way that has perhaps never been equalled before or since.

Between the year 1853, when Mr. Gladstone first went to the Exchequer, and 1859, when he returned there, nothing was attempted, nothing done in fiscal or financial reform.[1] The

[1] Two import duties only were repealed between 1853 and 1860, namely, the import duty on window and shade Glass (the Excise duty had been repealed in 1834) and that on Liquorice root; the two duties together involving a loss of revenue of £2,198.

necessity, first of imposing, and then of remitting special war taxation, the heavy expenditure and the hesitating revenue, were sufficient excuse for inaction. The war taxation imposed had taken the form of simple additions to existing taxation; the remission which followed was merely the removal of a portion of these burdens. Moreover, the phantom hope of even yet extinguishing the Income Tax in 1860, still held possession of the public mind, and greatly limited the power and the scope of the Chancellor of the Exchequer for the time being in regard to remission of taxation. And, even if the opportunity had occurred, Sir George Lewis was not the Minister to turn it to account. He belonged to the expiring school who favoured the financial ideas of Arthur Young, rather than those of Peel and of Cobden, and who persisted in thinking and arguing that simplicity in taxation was an evil to be avoided. It was reserved for Mr. Gladstone himself, therefore, to take up his task almost at the point at which he had left it seven years before, and to follow up his great Budget of 1853 by an even greater effort in 1860.

The first Budget of the new Chancellor of

the Exchequer, that of July, 1859, was professedly a provisional one. The way was deliberately left clear for a matured examination and comprehensive review of the whole financial position in the following year. The revenue was put at £64,340,000, while the expenditure had risen to £69,200,000, giving an estimated deficit of no less than £4,860,000. The increased expenditure was due to the war services — the game of beggar-my-neighbour between France and England was beginning. "In time of peace," said Mr. Gladstone, "nothing but dire necessity should induce us to borrow," and so the deficit was filled by shortening the "malt credits,"[1] and by a temporary increase of the Income Tax, from 5*d.* to 9*d.* With the chimerical idea of carrying out the proposals

[1] The Maltsters were allowed about six months' credit in which to pay the duty, equivalent to a loan to them by the State of two millions and a half. In this year (1859) the "credits" were shortened by six weeks, and a sum of £780,000 called in. The following year (1860) the credits were further shortened by another six weeks, and a further £1,100,000 called in.

As regards the "Hop credits," the crop was picked in August and sold in October; yet the first moiety of the duty was not due till May, and the second moiety not till November. In 1860 the system was altered, and the duty made payable in January.

of 1853, Disraeli had, the previous year, reduced the Income Tax from 7*d.* to 5*d.*, instead of redeeming the three and a half millions of Crimean War debt falling on that year. The ninepence, to which the tax was now raised, was the highest figure it had yet reached in time of peace.

In order to obtain the whole of the additional revenue in the current year, the additional 4*d.* was to be levied on the first half of the year.[1] Thus, when "the taxgatherer showed what, I suppose, we must call his ill-omened visage at the taxpayer's door," he would demand a thirteenpenny Income Tax for the first half of the year.

The Budget of 1860, though delayed a few days, in consequence of the illness of the Chancellor of the Exchequer, was introduced exceptionally early, on February 10th, seven weeks before the close of the financial year. A Commercial Treaty with France had been recently negotiated and required speedy ratification. The financial proposals of the year, to a large extent, depended on the Treaty, for under it, not only were there to be reductions

[1] See p. 133, note.

in the duties on such articles of import and revenue as wine and brandy; but, in consideration of the removal of prohibition and of a considerable reduction of the duties on the import into France of British goods, foreign manufactured imports were to be admitted free into the United Kingdom.

The Treaty, which was dictated on both sides as much by social and political as by economic and commercial reasons, had been personally negotiated by Mr. Cobden with the Emperor of the French and his Ministers. It continued until 1880, when it was denounced by the French Government and came to an end. The Treaty, while it lasted, was commercially of great advantage to both countries. The French Treaty was followed, in 1862, by a Treaty with Belgium; in 1863, by one with Italy; in 1864, by a Treaty with the Zollverein; and, in 1866, by one with Austria, the most rigidly protectionist of all countries. In each of these, and in all the other various Commercial Treaties, the "most favoured nation" clause—"the sheet anchor of Free Trade"—was introduced. These British Treaties set the fashion, and were soon followed by fifty or sixty similar International arrangements, under

which the Tariff of Europe was reduced some fifty per cent. Though many, if not most, of these Treaties have since expired, or have been denounced, protective duties as a whole have never returned to anything like their former level.[1]

[1] A discussion of the Commercial Treaty is rather beyond the scope of this book; for, though receiving the hearty support of Mr. Gladstone, the idea of the Treaty was entirely Mr. Cobden's, and he himself, almost single-handed, carried through the difficult and exhausting negotiations.

No defence of the principle of the Commercial Treaty of 1860 is now perhaps necessary. But, at the time, it was attacked by the "immoderate and unmanageable Free Traders," as Mr. Gladstone called them, as an infraction of sound economic ideas, and as a violation of the principle of Free Trade. The best answer is perhaps contained in a letter of Mr. Cobden's to Mr. Bright.

"I will undertake," he writes, "that there is not a syllable on our side of the Treaty that is inconsistent with the soundest principles of Free Trade. We do not propose to reduce a duty which, on its own merits, ought not to have been dealt with long ago. We give no concessions to France which do not apply to all other nations. We leave ourselves free to lay on any amount of internal duties and to put on an equal tax on foreign articles of the same kind at the Custom House. It is true we bind ourselves, for ten years, not otherwise to raise such of our customs as affect the French trade, or put on fresh ones; and this, I think, no true Free Trader will regret."

At the same time, it may be added, the French prohibitive "barrier" was broken down.

The total trade with France (including re-exports) in 1859 was £26,500,000. By 1866 it had risen to £63,500,000. In 1880 it was £70,000,000; in 1899 it was £75,500,000.

See especially for all this MORLEY'S *Life of Cobden* and Sir LOUIS MALLET'S *Free Exchange*, 1891.

"Public expectation," said Mr. Gladstone, in opening his Budget speech, "had long marked out the year 1860 as an important epoch in British finance." The scheme of 1853 had been planned to lead up to, and to end in this year. Then the Debt charge would be automatically relieved to the extent of over two millions a year—a proportionately large sum forty years ago—from the falling in of the "Long Annuities," the nucleus of which dated from 1761, and from the expiration of other Terminable Annuities; and would fall from £28,500,000 to £26,200,000. Further, the Income Tax, under the arrangement of 1853, was legally expiring. The reduced war duties still remaining on Tea and on Sugar—of 5*d.* in the pound on the former, and about 4*s.* to 5*s.* per cwt. on the latter[1]—had been enacted

[1] Unlike Tea, Sugar rejoiced in five to six different duties on different qualities of sugar, varying in proportion from time to time, and complicated, up to 1854, by differential rates in favour of Colonial sugar. It is difficult therefore to state in one figure the relief given or the burden imposed, when a change was made in the duty. When a specific figure is given it refers to the highest rate of duty; namely, that on *refined sugar.*

The duties on foreign and British Sugars were, under an Act of 1848, equalised by 1854. They were that year raised for war purposes. The equalised duty on refined Sugar was to be 13*s.* 4*d.* This was raised to 17*s.* 4*d.* in 1854 and to 20*s.* in 1858, and reduced to 18*s.* 4*d.* in 1857, at which figure it still stood.

in 1857 for three years only, and expired this year. The disappearance of the Income Tax, at 9*d.*, would involve a loss of revenue of ten millions; that of the modified war duties on Tea and Sugar a loss of over two millions. Thus a void in the revenue of some twelve millions would be created. Finally, the Commercial Treaty with France, involving, as of old, considerable alterations and remissions of Customs duties, added to the importance of the year 1863.

Much was expected from the year, and much was naturally expected from the Chancellor of the Exchequer of 1853. But a less far-seeing, less determined Statesman, and one with a lesser genius for finance might, without discredit, have given way to reluctant colleagues, and to the depression born of an apathetic public. The great opportunity might easily have been frittered away by reducing the Income Tax here, by giving relief to Local charges there, by lightening the Malt duty, the Tea duty or the Sugar duty—proposals which would have been fully in accord with the desire of the moment. But to Mr. Gladstone great necessities and narrow means, a period of pressure and a time of tension, deficits and difficulties, were distinct

reasons, not for arresting, but for persevering in the process of judicious and beneficial reforms, and for carrying them to completion. In his opinion it was these very reforms which would, by enlarging the area of British trade, industry, and enterprise, enable the Country the more easily to meet heavy expenditure and high taxation. Thus the genius and courage of Mr. Gladstone in taking splendid advantage of the very embarrassments of the situation, rendered the year 1860 one of the most memorable in British finance.

The speech in which his plans were unfolded, rivalled in oratory, lucidity, and argument that of 1853; and the proposals themselves, both in their immediate comprehensiveness, and in their ultimate effect, were as far-reaching as, and far more successful than, those of seven years before.

As we have seen, the oft-quoted "arrangement of 1853," which should have arrived at its final fruition in 1860, had broken down—debt, expenditure, taxation had destroyed it. The Income Tax, it was obvious, could not be repealed, the Tea and Sugar duties could not be relieved. Naturally the Chancellor of

the Exchequer was subjected to much adverse and sarcastic comment on the breakdown of his hopes and his anticipations, and as the hero for seven years of a popular delusion.

But the failure, though disappointing and somewhat humiliating, had not been due to the inherent weakness of the proposals themselves. On the contrary, if it had not been for the unanticipated war and aftermath of expenditure, the calculations of 1853 would have been substantially realised.[1] The actual effect and the financial results of the Succession duty had, it is true, been altogether miscalculated; the tax was producing but a little over half a million instead of the anticipated two millions. But this loss of revenue had been more than made good by the increase in the Spirit duties. The revenue, as a whole —thanks largely to the reforms from 1842 to 1853—had shown the anticipated, and more than the anticipated expansion, and had fully recovered the remissions made. Thus, the estimated revenue of 1860, after excluding the Income Tax and its arrears, and taking the duties on Tea and Sugar, at the rates to which it had been anticipated they would by

[1] See p. 15.

now have fallen, was £58,300,000, or a million more than the estimated revenue of 1853, which included the sevenpenny Income Tax and the then heavy duties on Tea and Sugar. As far, therefore, as the revenue was concerned, the Income Tax might have been relinquished. But while in 1853 the estimated gross expenditure had been but £56,300,000, and was not to increase, now, for 1860, in spite of the automatic reduction of over two millions on the Debt charge, it was estimated at no less than £70,000,000. Here was the rock on which the ship had split.

CHAPTER IV.

A GREAT BUDGET

THUS the scheme of 1853 had broken down, and the finance of the year 1860 could be considered on its merits, free from any mortgage on its assets. The Income Tax had legally expired, while the "war rates" on Tea and Sugar had also lapsed, the Tea duty legally falling to 1*s.* a pound, and the Sugar duty to about 14*s.* a hundredweight. On this basis, the estimated revenue (including £2,500,000 of arrears of Income Tax) could not be put higher than £60,700,000. The estimated expenditure was £70,100,000, leaving a huge deficit of £9,400,000—a poor foundation on which to base large financial operations. The re-imposition of the Income Tax at the expiring rate of 9*d.*, the re-imposition of the Tea and Sugar duties at the expiring rates of 1*s.* 5*d.* and 18*s.* 4*d.*, would produce the two sums of £7,700,000 and £2,100,000 respectively, which together would

fill the yawning deficit and leave a substantial surplus.

Thus there was a Budget made to hand, and, under the peculiar circumstances of the year, it might have sufficed for many. But it did not suffice for Mr. Gladstone. The deficit was to be increased before it was filled. He could not endure that the saving of two millions of hereditary burdens on the Debt should be merely "cast into the great gulf of expenditure there to be swallowed up; . . . it was," to him, "a mighty engine for the purpose of relief." The Commercial Treaty, which added to the complications and burdens of the year, was itself a lever, which he utilised to the full, for a comprehensive and final reform in the Tariff, and for a further large remission of taxation.

The proposals of 1860 were complete and comprehensive. The principle of free trade, as applied to imports and to revenue, was at last fully adopted. All remaining restrictions and restraints on trade disappeared. The policy of simplicity and of concentration in taxation was to prevail. Taxation, in future, was to be levied for revenue purposes alone. It was, at last, fully acknowledged that the

most economical, most productive, and most recuperative fiscal system, was that under which duties should be levied on a few great articles of general consumption, while the other products of trade and of industry went free.

In this, the fifth[1] and final revision of the Customs Tariff, the last relics of the miscalled system of Protection were swept away; and the controversy of forty years was finally closed. "Our old friend Protection," said Mr. Gladstone, "who used formerly to dwell in the palaces and the high places of the land, and who was dislodged from them some ten or fifteen years ago, has, since that period, still found pretty comfortable shelter and good living in holes and corners; and you are now invited to see whether you cannot likewise eject him from those holes and corners." Speaking generally, the result of the dislodgment now effected was to make a sweep, summary entire and absolute, from the face of the British tariff of all manufactured goods, of all raw materials, of all "fancy goods," and of all articles of food, except

[1] The other revisions of the Tariff were those of 1842, 1845, and 1846 (Peel), and of 1853 (Gladstone).

those on which taxation was retained solely for revenue purposes. Two exceptions only remained: the import duty on Timber, and the registration duty on Corn. The duty on foreign timber was now reduced to the colonial rates, and they were both finally abolished in 1866. The threepence a quarter on corn survived until 1871.

Free entry being thus given to all these articles of commerce and of food, the number of separate heads under which import duties were in future to be levied was reduced to 26, with 149 sub-heads, as compared to the 1,000 import duties existing in 1842 and the 440 of 1859.[1] And, in regard to the articles still remaining subject to duty, the Customs revenue would in future be derived substantially from fifteen articles only—such as spirits, wine, tea, sugar, tobacco, currants, coffee, timber, and corn. The other duties were retained, either as equivalents to an existing Excise duty on articles of domestic produce, or on account of the similarity of the article itself to one or other of those on which taxation was retained for revenue purposes.

Besides these tariff reforms, other remissions

[1] See chapter viii.

of taxation were given. The heavy duty on Foreign Timber was reduced to the level of the low Colonial rates. The revenue duties on Currants, Raisins, and Figs were reduced to a uniform 7*s.* a hundredweight. The import duty on Hops was lowered to a non-protective level. At a loss of over a million a year, the pernicious and vexatious Excise duty levied on Paper was to be repealed; a proposal which, in consequence of the rejection of the Paper Duty Repeal Bill by the House of Lords, led to constitutional complications between Lords and Commons.[1]

The Commercial Treaty itself involved, moreover, considerable reductions in the duty on Brandy; as also in the Wine duties—to foster the consumption of cheap light wines was one of Mr. Gladstone's hobbies.

The cost to the revenue of purging the Tariff was about £800,000; and the further gross cost of encouraging foreign trade by reduction of duties, involved about £1,250,000. The total gross loss of revenue from all the manifold remissions of taxation, including the Paper duty, was put at £4,000,000—a sum equivalent to the relief together derived from

[1] See chapter ix.

the reduction of the Debt charge of £2,000,000, and the continuing extra burdens on Tea and Sugar, amounting to £2,100,000. The continuance of the Tea and Sugar duties at the War rates, and the re-imposition of the ninepenny Income Tax, were sufficient to cover the original deficit of £9,400,000. But the deficit had been increased by £3,000,000, the estimated net loss involved in the proposed reforms and remissions of taxation, after allowing for the recovery on the duties reduced. For this sum it was necessary to make provision by the imposition of extra taxation.

The Stamp duties[1] were again taken in hand, and partially overhauled, and the reform was to yield a profit. Sir Charles Wood, in 1850,

[1] The "Stamp duties" in the sense here used are the duties charged on various documents and writings used in business, or in the legal or other professions, such as bills of exchange, receipts, cheques, sales, loans, deeds, etc.

This system of taxation was originally copied from the Dutch. In earlier days, the duty varied according to the nature of the instrument, and depended almost entirely on the number of pages or skins; and, to protect the revenue, the number of words that went to a page was limited by law, and the legal verbiage of the document prescribed. Gradually the amount of the duty was made to depend more according to the pecuniary magnitude of the transaction; but the duties were, until 1853, intolerably complicated, arbitrary, and burdensome.

had taken a first and moderate step in reform; and in 1853 and 1854 Mr. Gladstone had, in many respects, considerably simplified and reduced these duties. The chief reform had been the abolition of the varying and graduated scale of Stamp duties on receipts and drafts, which involved the use of a document stamped according to the value of the transaction, and which greatly hampered the rapidity and simplicity of everyday business. A penny receipt stamp (which could be an adhesive stamp) on all receipts of £2 or more took the place of the complicated scale. The system had the merit of combining convenience to the Taxpayer with increased profit to the Exchequer. "This minute kind of taxation, which," said Mr. Gladstone in 1860, "may be called vaguely but intelligibly penny taxation, and which seems to have shown that there is at least one kind of 'penny wisdom' which is not 'pound folly,'" was now, and again in 1864 and 1865, extended considerably further, and yet still further in later years. At first a special "receipt" stamp was prescribed; but in 1881, to the great convenience of the public, the "postage" and "revenue" stamps were assimilated. The penny taxation

now includes receipts for £2 or more, bills, cheques, drafts, proxies, voting papers, letters of allotment, contract notes, copies of register of birth, etc.—and yields a million and a half a year. Other improvements in the stamp duties were carried out in 1860. An import duty was imposed on Chicory, as a legitimate protection to Coffee. This duty was doubled the following year, and finally raised in 1863 to 26*s.* 6*d.*, the equivalent to the duty on Coffee.

These items of new and improved taxation would, together with a gratifying saving in Establishment charges, produce nearly a million. The malt credits were to be again shortened, together with hop credits, and the two operations were to produce a sum of a million and a half. The remnant of the deficit was to be met, and the provision of a sufficient surplus was to be secured, by the imposition of a further penny of Income Tax, to produce a million, raising it to tenpence. Tenpence was the highest point the Income Tax had yet reached in time of peace; and this, cruel fate, in the very year in which it was to have disappeared!

Thus was the Income Tax again utilised,

not only to avoid a deficit, but definitely, for the fourth time, as an instrument of reform. And in this latter beneficent work—and this was the novel feature of the financial proposals—the Tea and Sugar duties were distinctly associated. In 1853 they had shared in the general relief given to indirect taxation; this year they were retained at a high level in order that reforms and relief might be carried out elsewhere. Mr. Gladstone's defence of his action was complete and conclusive.

> "The duties on tea and sugar," he said, "whatever else they may be, are simply revenue duties. They entail no complexity in the Customs law; above all, they entail none of the evils that belong to differential duties. . . . And I do not hesitate to say that it is a mistake to suppose that the best mode of giving benefit to the labouring classes is simply to operate on the Articles consumed by them. If you want to do the *maximum* of good, you should rather operate on the articles which give them the *maximum* of employment."

All the manifold and intricate proposals of this comprehensive Budget, small as well as great, including an elaborate explanation and defence of the Commercial Treaty, were touched upon or discussed by Mr. Gladstone in his

Financial Statement. Over a score of questions were handled in his four hours' speech. Yet such was his knowledge and his mastery of the subject, and such his consummate skill in marshalling his facts and arguments, that each part was finely and fitly proportioned to the whole—the wood was never obscured by the trees.

CHAPTER V.

THE SIXTIES

THE other Budgets of this period, and of this series, were those of 1861, '62, '63, '64, '65, and '66; and they may be briefly summarised.

Wars, and rumours of war, trade disturbance, bad harvests, fiscal changes and financial tension, great expenditure and inelastic revenue, made the period from 1859 to 1862 one of unusual pressure and anxiety. The year 1860, with an actual expenditure, ordinary or extraordinary, of £72,900,000, was characterised by Mr. Gladstone as "a year of the highest taxation and of the greatest expenditure that had ever been known in this country, unless in the midst of a European war." The rising ordinary and extraordinary expenditure of the earlier years was courageously met by the imposition of taxation. Thus, as economy began to prevail, and as the revenue recovered its elasticity, surpluses accrued, and large and

repeated remissions of taxation were rendered possible. The turn of the tide came in 1862, the expenditure was on the ebb, and the revenue was recovering, in spite of the disturbance to trade caused by the American Civil War, by the *Trent* affair, and by the distress from the Lancashire cotton famine.

Mr. Gladstone himself was always an ardent advocate of Economy, and scarcely a Budget speech of the period passed without some fervent appeal on the subject.[1]

"The present high level of our expenditure," he said in 1862, "is still such a level as ought to attract the serious and careful consideration of the House. It is a higher level than can be borne by the people, even in their present state, with comfort and satisfaction. It has been borne with exemplary patience; but it is too high to be borne with comfort. It is plainly higher than is compatible with perfect health and soundness, in a financial point of view." "There has been," he said on another occasion, "a tendency to break down all barriers and all limits, which restrain the amount of public charge. For my own part, I am deeply convinced that all excess in the public expenditure beyond the legitimate wants of the country, is not only a pecuniary waste—for that, although an important, is yet a comparatively trifling matter—but a great political and, above all, a great

[1] See p. 159.

moral evil. It is a characteristic, sir, of the mischiefs which arise from financial prodigality, that they creep onwards with a noiseless step; that they commonly remain unseen and unfelt until they have reached a magnitude absolutely overwhelming."

To Lord Palmerston the alacrity with which the lavish expenditure was incurred and voted was a mark of public sagacity; to Mr. Gladstone it was a matter of reproach. "Lord, sir!" said Mr. Disraeli, in 1861, with much truth, "we need not maunder in antechambers to discover differences in the Cabinet, when we have a patriotic Prime Minister appealing to the spirit of the Country; and when, at the same time, we find his Chancellor of the Exchequer, whose duty is to supply the Ways and Means by which those exertions are to be supported, proposing votes with innuendo, and recommending expenditure in a whispered invective."

Without popular opinion behind him a Chancellor of the Exchequer has little chance of effecting economy; and the spirit of expenditure was abroad. At first the Chancellor of the Exchequer had the Cabinet against him; and, outside, he was as one crying in the wilderness — the Prime Minister had with him the

applauding crowds. The Continent was uneasy, the Emperor of the French was dressing for the part of Napoleon, Europe was becoming an armed camp; an expenditure of emulation seemed essential for our safety. It was, moreover, a transition period in armaments. The Navy had to be transformed and rebuilt, the ironclad replaced the wooden walls; the Army had to be rearmed and reorganised, the Volunteers enrolled, the fortifications of the Dockyards and Arsenals to be begun.[1]

But, by 1862, public opinion had veered round, the feeling of alarm had subsided. A Motion, declaring that the National expenditure could and should be reduced, was introduced in June; and Lord Palmerston, for fear lest worse things should befall, himself moved a dexterous amendment, which pledged the Government to Economy—with Security. Persistent pressure within the Cabinet, public preaching outside, had resulted in a signal triumph of the Chan-

[1] On May 24th, 1860, Lord Palmerston, writing to the Queen, said he hoped to overcome Mr. Gladstone's objections to the proposed loan for fortification, "but if it should prove impossible, however great the loss to the Government by the retirement of Mr. Gladstone, it would be better to lose Mr. Gladstone than to run the risk of losing Portsmouth or Plymouth."—*Life of Prince Consort*, v. 99.

cellor of the Exchequer over the Prime Minister: and Lord Palmerston's desk ceased to be littered with Mr. Gladstone's letters of resignation.

The ordinary expenditure, apart from the war expenditure, of the year 1858, was £64,000,000; that of 1859 was £68,700,000; that of 1860, with over two millions less of debt charge, was £69,850,000; that of 1862 was £69,300,000. During this period, moreover, some eight millions had been spent in war or warlike expeditions—in China, New Zealand, and Canada—and some two millions and a quarter on fortifications. In 1863 the expenditure had been reduced to £66,500,000; and by 1865 it had fallen to £65,100,000.

The revenue receipts of the year 1860 were most unsatisfactory, and were deficient to the extent of two millions, and the year ended in a deficit of two and a half millions; followed, in 1861, by another deficit, of one and a half millions. But, in 1862, there was a realised surplus of £1,300,000; and, in 1863, for the first time, the Chancellor of the Exchequer was able to estimate for a *bonâ fide* surplus, and for a surplus of no less than £3,740,000—an unprecedented sum. This surplus went in re-

mission of taxation; and in each of the three remaining years of this epoch there was a considerable estimated surplus available for further reduction of taxation. Economy had made remission possible; remission led to expansion of trade and increased consumption, and increased consumption brought elasticity of revenue—a healthy circle.

To return to the summary of these years. The original estimate of expenditure for 1860 had included £1,650,000 on account of the Chinese War. But, by July, a further sum of £3,350,000 was required for the same purpose. The action of the House of Lords had saved a million on the Paper duty; and, now, an increase of the Spirit duties, from 8*s.* to 10*s.* a gallon, provided another £1,400,000. Thus, out of a total of five millions of war expenditure falling on 1860, all but a million was met from taxation.

The year 1861 opened with a nominal surplus of two millions. This included, however, the Paper duty and the extra penny of Income Tax, imposed the previous year; and was just sufficient to admit of the repeal of the one and the remission of the other. Thus, fortunately

for its success, the final repeal of the Paper duty could be associated with the disappearance of the extra penny of Income Tax.

In 1862, with the estimated revenue at £70,190,000 and the expenditure at £70,040,000, there was an equilibrium. Such a narrow surplus might, according to Mr. Gladstone, under other circumstances, have involved some taxation in order to place the finance of the year in a safer position. But the outlook was fairly favourable, the past two years had been peculiar and exceptional, and he was therefore content, for this time only, to rest satisfied with a very close balance between revenue and expenditure. On the other hand it was obvious that, with no surplus, there could be no remissions. "The only security for a Chancellor of the Exchequer," he said, "lies in his utter destitution. If he does not possess a surplus you cannot take it from him; or, according to an old proverb current in the northern portion of this kingdom, which I will translate for fear of offending Scottish ears by a defective accent, 'It is difficult to deprive a Highlander of that particular garment which he does not wear.'"

The opportunity was, however, taken to deal

with some of the minor questions which were consequent on the active financial legislation of the past two years—the swell after the storm. The duty on dice, producing but £30 a year, was repealed; to prevent evasion, the shilling duty on playing cards was reduced to 3*d.*, and levied by means of a stamp on the wrapper instead of on the ace of spades. The hawkers' licence duty was reduced;[1] some small stamp duties were imposed. The Wine duties were rearranged and simplified.

The duty on Hops was removed from the raw material, hops, and placed on the manufactured article, Beer—"that incomparable and most wholesome article which we term bitter beer."[2] The Hop duty was, like all duties on the raw material, unequal, vexatious, and fluctuating; while hops, "the darling child of Protection and Monopoly," had been,

[1] The licence duty for Hawkers (1861), "if on foot," was £1. If, as the Act said, he "shall travel on one Beast of Burden only, that is to say, an Ass or a Mule, or a Horse not exceeding in height Thirteen Hands of Four Inches to each Hand," the licence duty was £2.

[2] On another occasion Mr. Gladstone spoke with enthusiasm of the "Burton Brewers, to whom we are all indebted for providing us with one of the best drinks which has ever been produced since nectar went out of fashion."—*Budget Speech*, 1881.

since 1860, subject to the competition of foreign hops—and felt it severely. But "the forcible and noiseless eloquence of the figures submitted to the Committee," made it clear that the revenue derived from the Hop duty could not be relinquished. "Aut Cæsar aut nihil,"[1] said Mr. Gladstone; "it is a case of commutation or nothing." Anticipating his action in 1880, in regard to the Malt tax, he availed himself of a moment when the repeal was out of question to commute the tax and to keep the money.

The commutation took the form of an addition to the Brewers' licence, equivalent to a duty of threepence a barrel of beer, or practically a shilling a quarter on all malt and sugar brewed. At the same time, the existing scale of Brewers' licences was revised, and the amount paid for the licence made to vary more strictly in accordance with the number of barrels of beer brewed.

A period of great prosperity was now to begin. The year 1862 ended with a realised

[1] So in the revised collected edition of the *Budget Speeches* of this period. The correct quotation is, of course, "Aut Cæsar aut nullus."

surplus of £1,300,000. The year 1863 opened with an estimated surplus of nearly four millions. For the first time, since 1845, an absolute and substantial surplus was available, that could be freely handled unfettered and unforestalled.

Fiscal reforms—as tending to encourage trade and commerce, and to increase output, turnover, profits, and employment—had taken precedence of simple remissions of taxation on articles of general consumption. But these reforms were now practically completed, and the time had come to review the burdens on, and to give direct relief to the consumer. It was obviously preferable, from the point of view of trade, of consumption, and of revenue recuperation, that the whole remission should be given on one article and not frittered away between two or more. The only question for discussion, therefore, was whether Tea or Sugar should be given precedence in relief. Tea and Sugar had often before been colleagues in relief, or companions in misfortune; but now, "for the first time in the history of legislation or of mankind, these two articles have been placed in hostile competition with one another." On the balance of argument, Tea was the

victor, and Sugar had to wait for relief until the following year. Tea received further relief in 1865, but Sugar then drew ahead. In 1870, and again in 1873, the sugar duty was halved; and, in 1874, the remaining duty of 3*s.* a cwt. was repealed. And now, after twenty-seven years of freedom, sugar is again subjected to taxation.

The tea duty was therefore reduced from 1*s.* 5*d.* to the shilling a pound to which, under the arrangement of 1853, and again under the Act of 1857, it was to have fallen in 1860. Mr. Gladstone held the view that reductions in direct taxation should go hand in hand with reductions of indirect taxation on articles of general consumption;[1] so the Income Tax was reduced from ninepence to the old familiar sevenpence. At the same time, the distinction between the rate charged on incomes between £100 and £150 and on those over £150, was abolished; and, instead, an abatement of £60 was given on all incomes between £100 and £200—the "sore place" in the working of the tax. The Tobacco duty was slightly altered, and a few minor changes in taxation were carried through. An attempt was also made to bring

[1] See p. 142.

Corporate bodies and Charities under some form of direct taxation. The outcry and opposition were, however, so vehement and severe that the proposal had to be withdrawn—one of Mr. Gladstone's few failures in the field of finance.

The flourishing state of the revenue, and the note of economy continuing, resulted in a realised surplus of £3,150,000 on 1863—a surplus only three times before equalled or exceeded, namely, in 1844, 1850, and 1853. The estimated surplus for 1864 was put at £2,600,000. A few minor concessions were given. The Fire Insurance duty was reduced to 1*s.* 6*d.* per cent.; the Hawker's Licence was again lightened; a few small Stamp duties were improved or imposed; the Corn registration duty was altered from measure to weight, from a shilling a quarter to threepence a hundredweight. "Having now got," as Mr. Gladstone said on one occasion, "the pickaxe into the respectable fabric of the surplus, and dislodged from it one or two bricks, we shall find it very easy to complete the bulk of the operation, and to bring the whole, or nearly the whole of the fabric to the ground." The Income Tax was reduced by a further penny to 6*d.*; the Sugar duties were lowered from 18*s.* 4*d.* to 12*s.* 10*d.*

a cwt. on refined sugar; and were thus reduced to a point slightly below that at which they had stood before the war duties were imposed. The Budget was a corollary of that of the year before.

In 1865, favourable winds still prevailing, the estimated surplus was put at four millions —another record; the previous year, in spite of the great remission of taxation, having closed with a surplus of over three and three-quarter millions.[1] Again the financial scheme for the year was fairly obvious. The Tea duty was further reduced by one half, from a shilling to sixpence a pound. The Income Tax was reduced from sixpence to fourpence, the lowest point it had yet touched; a reduction which, Mr. Gladstone declared, made the retention of the tax easy, or its extinction practicable. The reduction of the Tea duty two years before had been

[1] A realised surplus only once before exceeded, in 1844, when it amounted to £6,340,000. The realised surplus in 1853 was £3,524,000.

It must be remembered that, up to 1874, no allowance was, as a rule, made in the Estimates for elasticity of revenue. The estimated revenue was based on the actual receipts of the previous year, taking into account any changes made in taxation.

Thus any elasticity of revenue went to create, or to swell the realised surplus.

declared by the Chancellor of the Exchequer to be "as far as we may look forward into the future, a final measure." But cash and economy forced his hand; and, as later in 1870, in regard to the Sugar duty, surpluses compelled remission, in spite of rash declarations of finality.

In 1866 Mr. Gladstone, now also Leader of the House, presented the last Budget of this remarkable series. The estimated surplus, £1,350,000, was less than that of the previous years. The question of the reduction of the Debt, too long neglected, was now to receive some attention, and half a million a year was to be devoted to its redemption by means of an elaborate system of Terminable Annuities.[1] These proposals were dropped after the change of Government; but were revived and carried through by Mr. Disraeli in a simplified form in 1868. Some £300,000 was devoted to the final repeal of the import duty on Timber, the last relic of the formerly abounding duties on raw materials. "The Timber duty," said Mr. Gladstone, "is as bad a duty as it can be. It is a protective duty on a raw material of which the country stands in great want; which is of

[1] See p. 151.

great bulk, and thus, in any case, made costly by carriage. The imposition of the duty, which has the effect of greatly increasing the cost, and which also, as far as it goes, has a protective character, is the very essence and quintessence of political folly." There were separate duties for hewn, sawn, or split woods, while furniture or hard woods were enumerated under twenty-five heads. The duty had at one time been as high as 65*s.* a load on foreign timber, and had always been greatly differential in favour of the Colonies. Gradually, by successive stages, it had been simplified, reduced, and equalised; and, in 1860, the duty on foreign unsawn wood had been reduced from 7*s.* 6*d.* a load to the colonial rate of a shilling. The repeal relieved the tariff of thirty-six items of charge, including the charge of a shilling a ton on ships "if built of wood."

The duty on Pepper—"a condiment common to all classes of the community"—was repealed, tardily following the other duties on spices. The mileage duty on stage coaches was reduced; as was also the licence duty on letting horses for hire; cheap locomotion was the order of the day. In connection with the Commercial Treaty negotiated with Austria,

the duty on wine in bottles was reduced to that on wine in the wood.

Into these seven years, from 1859 to 1866, were crowded a larger number and a greater variety of financial changes and reforms than during any like number of years of any former or subsequent period. Apart from immense change involved in the complete purging of the Customs list, the Income Tax was reduced from 10*d.* to 4*d.*; the Tea duty from 1*s.* 5*d.* to 6*d.* a pound; the Sugar duties by 4*s.* to 5*s.* a cwt.; the Paper duty was repealed, the Hop duty was commuted. A vast number of other taxes were dealt with. The Fire Insurance duty, a tax on prudence, and sundry taxes on Locomotion were lightened and reduced; the Stamp duties and Licences were thoroughly reformed and simplified, some were repealed, some reduced, others imposed; many minor duties and taxes were altered or imposed.

These remissions, alterations, and reforms, small as well as great, involved endless trouble and labour, careful study, and accurate knowledge of technicalities, and minutiæ. But all this was a labour of love to Mr. Gladstone, who had a tender passion for detail and an

affectionate appreciation of statistics, and who never spared himself in mastering to the full any and every financial question that arose.[1]

Remarkable results in the way of recuperation of revenue followed; attributable chiefly to the fact, so argued the Chancellor of the Exchequer, "that the particular taxes which have been selected for abolition or reduction were taxes peculiarly injurious and obstructive"; and that this policy has been combined with the essential corollary, "the cautious, judicious, gradual, but yet resolute application to all the Departments, of the principles of a true and strict economy."

The annual Financial Statements of 1861 to 1866 were all long, elaborate, eloquent, and interesting. The proposals contained in these later Budgets were simpler, and of more assured acceptance than those of 1853 and of

[1] "He (Mr. Gladstone) is interested in everything he has to do with, and often interested too much. He proposes to put a stamp on contract notes with an eager earnestness, as if the destiny of Europe, here and hereafter, depended upon its enactment. He cannot let anything alone. 'Sir,' said an old distributor of stamps in Westmoreland, 'my head, sir, is worn out. I must resign. The Chancellor, sir, is imposing of things I can't understand.'"—*Bagehot Biog. Studies*, 1860.

1860; each particular speech was therefore less in the nature of an argumentative appeal and more in the nature of an exposition. But, though Mr. Gladstone had to deal on occasion with "matters extremely dry and technical," or with subjects, such as the complicated sugar duties, which were "inconceivably dull; and abounding in every element of repulsiveness," he was never, for one single minute, dry or dull. While it was often necessary to take his hearers through a wilderness of figures, he varies the way by excursions into greener paths and more attractive scenes. Now, with a light touch, now with an impassioned period, now again with solid argument, he discusses the great question of the Income Tax, or discourses on the rivalry between Direct and Indirect taxation; balances the arguments between Tea and Sugar; elucidates the position of the Malt tax or the Paper duty; dwells on the growing taste for lighter Wines; alarms by an anticipated exhaustion of the Coal supply; mourns over the blighted hopes of Pepper; or rejoices over the happy health of the foreign Rag trade. Then, taking a comprehensive view of the position of the Country, he dilates on her progress and prosperity; or

earnestly appeals for economy, again economy, always economy.

Anon, he enters at large into a fervent and inspiring digression on the improved condition of the labouring classes, largely due—no vain boast—to the stimulus given to industry, and to the cheapening in articles of consumption, which had followed the policy of fiscal freedom. If, he said, "the extraordinary and intoxicating growth" of wealth were confined to those in easy circumstances, then, indeed, he would look upon the prosperity of the Country with some degree of pain rather than with pleasure. But it was not so. He derived "profound and inestimable consolation from the reflection that, while the rich have been growing richer, the poor have become less poor."

CHAPTER VI.

LATER YEARS

PARLIAMENT was dissolved in the summer of 1865—a Parliament which had enjoyed the distinction of having discussed seven Budgets. In the autumn Lord Palmerston died; and Lord Russell succeeded as Premier, with Mr. Gladstone as Leader of the House of Commons, though still at the Exchequer. An era of internal repose was to be followed by a period of volcanic activity. In 1866 the Russell Ministry resigned—defeated on Reform—and were followed by a Conservative Government on sufferance; and a far-reaching Reform Bill was carried through the House of Commons by the House of Commons. The work done, the feeble Ministry was cast aside; and the first "Liberal" Government was formed, with Mr. Gladstone as Prime Minister and as the trusted Leader of a great Party.

Mr. Lowe—singular choice—was Chancellor

of the Exchequer. The British public loves to dub a prominent man by a name or a deed—whether opprobrious or otherwise is much a matter of luck—and the whole of his career is to ninety-nine out of a hundred summed up in the epithet. Fate is thus often unkind. To the man in the street, Sir James Graham—a very able administrator, and Peel's most trusted and consulted colleague—is only known as the Home Secretary who opened other people's letters. To the same intelligent individual, Mr. Lowe is known merely as the man who wanted to tax matches—and who aggravated his offence by a classical pun.

> "'Ex luce lucellum' we all of us know;
> But if Lucy won't sell 'em, what then, Mr. Lowe?"

The Match tax was doubtless a foolish proposal, savouring of the ideas of our ancestors; and one wonders how Mr. Gladstone can have allowed it to pass his scrutiny. But it was an incident merely in an otherwise fairly sound and successful period at the Exchequer, during which the financial policy of 1860–6 was substantially supplemented; and in which, for the last time, economy, not to say drastic economy, prevailed. Taxation to an amount of

twelve and half millions was remitted. Direct and indirect taxation were mutually relieved. The Sugar duty was reduced by two-thirds; the Coffee duty by one-half; the Income Tax was reduced to 3*d.*, the lowest figure it had yet reached. The taxes on Locomotion were greatly lightened. The collection of the different branches of direct taxation was placed on a sounder and more sensible basis. Instead of three collections in the year, with arrears, amounting to a quarter of the whole, standing over, the whole of the Income Tax was collected at one time, and the whole of it within the year in which it was imposed. The Assessed taxes, simplified by Mr. Gladstone in 1853, were changed into Licence duties, and made payable in advance. The Stamp duties were reformed and consolidated, two simple and intelligible Acts of Parliament taking the place of one hundred and six statutes. On the other hand, nothing was specially done for the more speedy reduction of the National Debt.

It may perhaps fairly be urged that remissions of taxation were carried too far; and that it was a mistake to have relinquished the shilling registration duty on Corn, and to have reduced the Sugar duty to a point at which

its extinction became economically inevitable—for it is one thing to repeal, quite another to re-impose. But on strict free trade principles the Corn duty was indefensible; it was the only remaining import duty on an article also produced at home, on which no Excise duty was levied; and its imposition involved the irritating and harassing levy of duty on no less than some forty other articles of food, into the composition of which corn or flour entered. Then, as regards the Sugar duty, if, thanks to the all-absorbing expenditure of the age, the basis of taxation has now again to be enlarged, at least the consumer and the trade have enjoyed the advantage of the remission for over a quarter of a century. Those were the days, it must be remembered, of moderate expenditure, and of "leaps and bounds" in trade, commerce, and revenue—halcyon days, with little thought of the storm and stress of the morrow. Surplus followed surplus. The money in a most embarrassing way persisted in pouring in; and yet, in spite of an almost reckless relinquishment of revenue, the period ended with a surplus of unprecedented magnitude.

By 1873, though with a splendid record

behind them, the Government, exhausted by their own activity, beset by harassed interests, suffering from personal and political unpopularity, had become so weakened as to necessitate a reshuffling of the cards. Mr. Gladstone, himself, again became Chancellor of the Exchequer. Thus, like Walpole, like Pitt, like Peel in his first short Ministry, Mr. Gladstone combined the treble duties of Prime Minister, Leader of the House of Commons, and Chancellor of the Exchequer.[1]

The Ministerial changes took place in July. In the following January Parliament was suddenly dissolved, and an Electioneering Budget was presented to the electors. So flourishing was the state of the National finances, that Mr. Gladstone thought he saw his way to accomplish one of his favourite financial desires —the repeal of the Income Tax. Instead, however, of waiting for a few weeks more,

[1] From the days of Stanhope, in 1717, who for a time combined the Offices of First Lord of the Treasury and Chancellor of the Exchequer, up to the time of Peel in 1834, the two Offices were always held together when the Prime Minister was in the Lower House. They were so held by Walpole in 1721, by Pelham in 1744, by Grenville in 1763, by North in 1770, by Pitt in 1783, by Addington in 1801, by Pitt again in 1804, by Perceval in 1809, by Canning in 1827, by Peel in 1834. But between 1834 and 1873 the two Offices of First Lord and Chancellor of the Exchequer were kept distinct.

and producing his scheme, fully matured and presented from his place in the House of Commons, he must needs, on the plea of the necessity of obtaining a fresh "access of strength" to the Government, impetuously and imperfectly summarise his proposals in the form of an Election Address, and go to the Country upon them. The proceeding is one difficult to justify—and it was not justified by success.[1] We may deplore it the more, inasmuch as the defeat of the Government at the polls has for ever lost in oblivion the embryo Budget of 1874, with its repeal of the Income Tax, its "marked relief in the class of articles of popular consumption," its "judicious adjustment of existing taxes." And so we are the poorer by a Speech and a Budget that would, in all probability, have rivalled the days of 1853 and 1860. On the other hand, we keep the Income Tax—and that is a considerable consolation.

The Election of 1874 resulted in a compact

[1] See p. 129. It is but fair, however, to refer the reader to Mr. Gladstone's own defence of his action. This is contained in two articles, in the *Nineteenth Century* for June and August, 1887, called forth by a gratuitous attack upon him by Mr. Lecky in the sixth volume of his *History of the Eighteenth Century*.

Tory majority; and Mr. Disraeli, after twenty-eight years of patient and persistent waiting, came, for the first time, into Power, as well as into Office.

We are not here concerned with the six years of Conservative administration. In 1874 the six millions surplus left by Mr. Gladstone was, by his successor, utilised to repeal the remnant of the Sugar duties, to reduce the Income Tax to twopence, and to give a large grant in relief of Local Taxation. Both Parties had, at the election, pledged themselves to the repeal of the Income Tax. "But," said the new Chancellor of the Exchequer, in introducing his Budget, "such a mighty structure as that of the Income Tax was not to be lightly thrown down at six weeks' notice." It was therefore reduced to a rate "little more than nominal," and was to expire naturally as surpluses continued. But surpluses did not continue. Expenditure, ordinary and extraordinary, made rapid strides, and, at the same time, the revenue lost its vitality. Anxieties came thick and fast. The Eastern Question, Afghanistan, Egypt, South Africa, were troublesome and costly. Though some additional taxation was imposed, and the Income Tax, the Tobacco duties, and

the Probate duties, were all called in to help; but very meagre efforts were made to meet the expenditure involved. Thus, in 1880, when Mr. Gladstone again went to the Exchequer, he found that his savings had been dissipated, and that the finances of the country were embarrassed. The Income Tax was at 5*d.* instead of at 3*d.*, the Sugar duty had disappeared, the Revenue was inelastic; an ordinary expenditure of eighty-two and a quarter millions had to be met, or ten millions more than that at which he had left it six years before.

The Conservative Government dissolved Parliament in March, 1880, and the new House showed a large Liberal majority. After some by-play with Lord Granville and Lord Hartington, Mr. Gladstone was "sent for," and formed his second Administration. He again, turning for relaxation to the work he loved so well, combined the Exchequer with the Premiership. But he was now six years older; and, before long, he found that advancing age and increasing pressure of work, a Cabinet at once too brilliant and too little cohesive, Irish agitation and Foreign complications, left but small margin of time and energy for Finance.

But, nevertheless, this last period at the Exchequer was marked by a crowning effort. The balance between the estimated revenue and expenditure of 1880 showed a small deficit; but in spite of this, or perhaps in consequence of it, one further and, for him, final fiscal reform was to be carried through—a tax on Beer was to take the place of the Malt duty. The Malt duty was an Excise duty levied on the raw material; at the initial stage of manufacture, instead of on the finished product. Consequently, for the due protection of the revenue, restrictions had to be enforced in regard both to the materials that might be used, and as to the time when, and the mode and structure in which the malting should take place. The necessary legislative regulations practically confined malting to barley; and, by so doing, gave a powerful preference to the higher qualities of barley. The duty varied, year by year, according to the excellence or abundance, or the reverse, of the barley crop. Being collected at an early stage of manufacture, the tax added greatly to the cost of production. Thus the duty, as necessarily assessed and levied, was to the barley grower at once preferential and prohibitive; to the maltster vexatious and

fettering; to the Exchequer wasteful and unsatisfactory; to the consumer costly.

The transfer of the tax from the quarter of Barley to the barrel of Beer would render Excise supervision unnecessary until the last stage; and thus a great industry would be, as far as possible, freed from the blighting influence of the exciseman; the method and time of manufacture, and the choice of materials would be left to the free play of trade and competition.

For many years past there had been a growing demand for the abolition, reduction, or repeal of the duty. But the tax was producing eight and a half millions of annual revenue, none of which could be spared. In 1862 Mr. Gladstone had adroitly taken advantage of the fact that he had no surplus, to commute the Hop duty into a charge on Beer. Now was the psychological moment for a still greater commutation. With no surplus, it was obviously again a case of "aut Cæsar aut nihil"; so, again, commutation was carried through, and the revenue was saved.

The Malt duty of 21*s.* 8½*d.*, the Brewers' shilling (hop) licence duty, and other estimated advantages, were commuted into a duty of

5*s.* 10½*d.* per barrel. It was not intended by Mr. Gladstone that the new duty should be a substantially greater burden than the old; and it seems clear—though it is a disputed point—that the commutation has not involved any real additional burden on the Brewer. It may be questioned, however, whether the Agricultural interest which, in 1880, clamoured for the change, and eagerly supported the scheme, has not suffered through the freedom that, of necessity, followed in the use for malting purposes of articles other than English barley. But, as a fiscal measure, judged from the point of view of the general taxpayer, the change has been an unqualified success. The Beer duty is less fluctuating, more productive, and more easily increased than was the case with the Malt tax.

The commutation was a work in which Mr. Gladstone took great pride; it was the largest and most complicated single financial operation in which he was ever engaged, and he revelled in the details and the intricacies and calculations that it involved.[1] The commutation of the Malt tax involved the immediate payment of over a million of drawback, on the unsold stocks of malt on which duty had already been paid, and the deficit was made good by an additional penny on the Income Tax, and by an increase in the publicans' Licence duty. Thus was the Income Tax again, and probably for the last time, specifically utilised to facilitate a fiscal reform.

[1] Sir A. West, in his *Recollections*, speaks of an occasion, in 1880, on which Mr. Gladstone, being engaged with a Colleague and an Ambassador, got rid of them, glancing at the clock, saying as he rose, "Now I must go to those dear malt people." Mr. Watney, the great brewer, after the Bill got into Committee, said to Sir Algernon: "It's no use my going on; Mr. Gladstone knows more of my business than I do myself."

Two more Budgets were presented by Mr. Gladstone. In 1881, with a revenue of eighty-six millions, there was an estimated surplus of £1,184,000. The estimated expenditure of nearly eighty-five millions was likewise phenomenal. The actual expenditure of the year included no less than four millions of war charge, of which half was due to past war legacies, and half to current little wars. The surplus was devoted to the remission of the extra penny of Income Tax borrowed the previous year—thereby causing a small deficit. But Mr. Gladstone abhorred a vacuum; and so the Spirit duty was slightly

increased, the scale of the Probate duty was simplified and extended, and a slight change was made in the Legacy duty; leaving "one of those small but reasonable surpluses without which the vicissitudes of the year cannot be encountered." In discussing the Probate duties he foreshadowed a comprehensive measure which would deal with "the largest and most difficult question still remaining to be effectually dealt with by Parliament"—the Death Duties. Thirteen years later the question was effectually dealt with—but not by him; and it is a matter of interest to speculate as to what would have been his own particular scheme of reform.

Mr. Gladstone's thirteenth and last Budget, that of 1882, was the antipodes of his first. He was overwhelmed with other work and other responsibilities. The estimated surplus was but £315,000; a few minute, very minute, changes were made, involving remissions of but £4,520, and impositions of but £6,344—a contrast indeed to 1853. One further act he had to perform as Chancellor of the Exchequer. In July, 1882, a Vote of Credit for £2,300,000 was taken for the Egyptian campaign; and the whole of this extra ex-

penditure he proposed—as was his wont—to meet within the year. This was done by an addition of threepence to the Income Tax on the second half of the year.

In 1883 Mr. Gladstone resigned his position as Chancellor of the Exchequer, exactly thirty years after he had first assumed that office. In 1885 his Government were beaten on their "hundred million" Budget. A courageous enough Budget—inspired, we may conclude, by the Prime Minister himself—under which the half of a deficit of fifteen millions, due to extraordinary expenditure, was to be met by immediate additional taxation. But, as has happened before, the merits of the financial proposals were obscured by the question of Confidence; and a combination of adverse circumstances conspired to a not unwelcome defeat more of the Government than of the Budget itself.

CHAPTER VII.

FISCAL REFORMS

THE great and most lasting work that Mr. Gladstone accomplished in Finance was this—that he found the Revenue and Taxation of the Country still substantially based on the old chaotic system, with its harassing, restrictive, and burdensome duties; and that he left it free of all protective, differential, and discriminating duties, with taxation simplified and concentrated, and levied solely for revenue purposes. This policy is one to which the Nation has steadily and persistently adhered ever since; a policy that has stood the test of time, and the strain of enormous and increasing expenditure.

These principles, as applied to Fiscal and Financial matters, appear to us, nowadays, a commonplace. We are apt to wonder at the obstinacy and the foolishness of our ancestors in maintaining and enduring for so long, a policy of Restriction and a system of Finance

which seems so obviously mistaken. The modern Chancellor of the Exchequer, to whom the road is narrow and circumscribed, may well sigh for the good old days when reforms were to hand, and when, as it now seems, undying fame was so easily attainable. Truisms, however, as the application of these principles appear to us, they were no truisms sixty, fifty, or even forty years ago, though light and truth were gradually breaking in.

Under the old system, every article that was imported into the country was subject to innumerable and heavy Import duties, which fettered trade, while everything that was produced at home was subject to vexatious Excise duties which strangled enterprise. This system of finance was founded on the idea that the best method in which revenue could be obtained was to raise some of it from everything; the mistaken idea, that the broader the basis of taxation the more profitable it would necessarily be.

The policy, as defined and defended by Arthur Young some hundred years ago, was "to bear lightly on an infinite number of points, heavily on none. In other words, that *simplicity* in taxation is the greatest additional

weight that can be given to taxes, and ought to be most sedulously avoided." The practical application of this principle, as increased expenditure involved increased taxation, had resulted in heavy pressure being applied to a multitude of points, relief to none.

Thus had been imposed and maintained a vast number of Excise duties—*i.e.* duties on articles produced in the country—on all the principal home productions, on glass, bricks, paper, candles, leather, soap, etc. In order to levy these Excise duties, and to prevent evasion, the mode and process of manufacture had to be strictly supervised and regulated. The same principle applied to the Customs duties—*i.e.* duties on articles imported into the country—involved the imposition of Import duties on all articles of Foreign or Colonial growth or production. But the policy of an extensive and comprehensive Customs Tariff was also further dictated by the desire to protect articles of Home production from Foreign or Colonial competition; and by the belief—the "balance of trade" idea—that, while exports might be advantageous, the less we bought from the foreigner the better for our prosperity. So protective duties, and duties

preferential in favour of the Colonies, were imposed on all imported articles, whether of food, or raw material, or of manufacture. "Restriction," as Disraeli says in *Coningsby*, "was the genius of the commercial code."

These import duties were in all cases heavy, and on many articles practically prohibitive. From a few imported articles of general consumption a substantial revenue was derived, but from the bulk of the articles taxed, the receipts were infinitesimal, and from many nil; an unproductiveness that was looked upon with complacency as proving the efficacy of the system. Further, the Taxation that was maintained chiefly for revenue purposes, on Spirits, Tea, Sugar, Tobacco, Wine, etc., was at such a high figure, and levied in such a way, that consumption was limited, and recuperation of revenue was checked. The upshot of the whole matter was, that legitimate trade, enterprise, improvement, and expansion were discouraged or misdirected. The Home producer was hampered by vexatious restrictions; the Trader was teased as well as taxed; the Importer was harassed by costly and complicated duties, and by the necessity of minute examination of every parcel of imported goods;

the Consumer was injured in the restriction on his choice, and the increased cost of all articles of consumption; the Revenue was stationary and inelastic, the burden of the taxes was far heavier than the receipts at the Exchequer.

Such was the position when the Peace of 1815 followed the Napoleonic War. And peace, instead of bringing plenty, brought distress. Profits, prices, wages, trade and commerce shrank together; the artificial stimulus of War was followed by the shrinkage of Peace. The Nation, impatient of visibly irksome taxation, refused to continue the Income Tax and the War Malt Tax. The loss of sixteen or seventeen millions of revenue not only prevented for some years any attempt to undertake much-needed fiscal reforms, but, by necessitating additional taxation elsewhere, further aggravated the existing financial crisis. Nothing therefore was attempted, except Economy, until, in 1822, Huskisson came to the Board of Trade, and Robinson succeeded Vansittart at the Exchequer. They made a gallant effort to deal with the situation. The crippling dead-weight of the Sinking Fund was partly removed. The first step was taken in that commercial revolution, which was

brought to completion in 1860. Protection was still allowed to remain in full force, but most of the prohibitive or crushing duties on foreign manufactured imports were greatly reduced, and those on raw materials of manufacture were simultaneously lowered. The pernicious and harassing Excise duties were, some repealed, many reduced.

Some further steps in reform, especially in Excise reform, were subsequently taken by Goulburn under Wellington, and by Althorp in the early days of the Whigs. The Excise duties on Leather, on printed Calicoes, on Candles, on Starch, together with duties on Sea-borne Coal, were abolished, and the duties on Paper, on Soap, on Sugar, and on Newspapers were reduced.

Then came financial mismanagement, commercial stagnation, falling revenue and recurring deficits. And, in 1840, the Whig Government were compelled, for very shame, to impose some additional taxation. They resorted—for the last time—to the old, exploded system of a general five per cent. levy on all existing Custom and Excise duties.[1] But the

[1] This levy, called "Baring's levy"—Sir F. Baring was Chancellor of the Exchequer at the time—enormously compli-

additional levy only made matters worse; and, in the following year, the Government, in greater straits than ever, tardy and ill-informed converts to the doctrine that by a reduction of protective duties the consumer could be relieved at the same time that the revenue benefited, reversed their action of the previous year, and endeavoured to meet the deficit by dealing drastically with the protective and differential duties levied on foreign Sugar and Timber. They lacked, however, the insight or the courage to combine their proposals for reduction with the imposition of direct taxation and the creation of a surplus.

This was, however, immaterial, for the Country was very tired of the Whigs; and, first defeated on the Budget, and then routed at the polls, the Melbourne Government were at last ignominiously driven from Office, to which, too long for their reputation, they had clung. They were succeeded by Peel in the Autumn of 1841.

A new era was opened. The Hour had

cated the Tariff, and added to the cost confusion and delay in charging the duty, by the addition of niggling little fractions to every tax.

For instance, and it is only one amongst scores, the duty on Pears was raised from 3*s.* to 3*s.* $0\frac{3}{10}$*d.* per bushel.

come and the Man. Peel was the first to realise the true inwardness of the economic position, and the real remedy for the fiscal and financial ills of the country; namely, that financial reform must be based on a surplus; and fiscal reform, to be successful, must be bold and comprehensive.

In Finance, in Commerce, and in the Currency, chaos prevailed; and, out of it, the master-mind soon evolved order, confidence, and prosperity. Peel proposed the re-imposition of the Income Tax, and dealt drastically with the Tariff. He found the Customs Tariff loaded with over a thousand articles subject to duty. He found that six-sevenths of the whole Customs revenue — eighteen and a half millions out of twenty-two — was derived from nine articles alone; that the duties on 531 articles together produced but £80,000 a year; and, that on 147 articles subject to taxation, there was an actual loss, due to the drawback given. Of a truth, as Swift said, in the arithmetic of the Custom House two and two do not always make four.

Three times—first in 1842, again in 1845, and finally in 1846—Peel revised the Tariff, each successive step showing naturally greater

breadth and strength. At first his policy was but an extension of that of Huskisson, the substitution of protective for almost prohibitory duties on articles of competition, and the reduction to a low figure of the duties on raw materials, and on some minor articles. But, by 1845, he was able with confidence to step more firmly and securely; and he had a large surplus to use as a lever.

In the two later revisions, therefore, high duties were further relaxed, and low duties were further reduced; the duties on raw materials were abolished, and many unremunerative articles were freed from taxation, and the remaining export duties—including that on Coal—were repealed. To begin with, as Cobden said, while Peel had taken "the duty off caviare and cassava he had left corn and sugar oppressed." But, in 1846, not only were the Corn Laws abolished, but the duties on live animals and on animal food were repealed, and duties on other articles of food were reduced. Roughly speaking, Peel abolished the duties on some six hundred articles, and reduced the duties on most of the others. And there is little doubt but that, had time been vouchsafed to him, he would have anticipated many of

the reforms carried out by Mr. Gladstone in 1853 and 1860; and would have placed the whole financial system of the country substantially on a free trade basis.

Peel's solid work in finance and in commerce has been overshadowed in the public view by the more dramatic interest engendered by the Corn Law agitation. But the abolition of the protective duty on home-grown Corn, if reduced to its proper fiscal proportions, was but an item—though a very important item—in the reforms of the time. The import duty on Corn was simply a protective duty on home-grown corn, and was bound to disappear along with the other protective duties. Peel himself, and his most intimate colleagues, had foreseen from the beginning the goal to which his policy must inevitably lead. But, loving it, he had intended to deal tenderly with the great Agricultural interest (far more important, in proportion, then than now); he had hoped to educate instead of coerce his Party; when Ireland, fateful Ireland, for the second time, crossed his career and forced his hand.

Between 1846 and 1853 something, but not

much, was done in the direction of free trade and fiscal reform. The Window Tax was repealed, and its place taken by the House duty. The Navigation Laws were repealed and the Shipping trade unshackled. The protection given to West Indian Sugar was gradually withdrawn; the Timber duties were reduced; Bricks ceased to be taxed. In 1853 the Tariff still, however, bristled with innumerable and harassing duties. Most imported manufactured and semi-manufactured goods were taxed, and heavily taxed. One or two raw materials of manufacture were still harried and burdened with duties. All articles of food, except corn and meat, paid toll on entry; while scores of duties were levied on the miscellaneous articles of import. The Colonies enjoyed differential treatment.

CHAPTER VIII.

PURGING THE TARIFF

SUCH, then, was the position when Peel's most famous disciple went to the Exchequer, imbued and saturated with Peel's ideas, and burning with the desire to carry yet further the work which had engaged the chief attention of his great Master.

The position was, indeed, a simpler and an easier one than that of a decade before. Simpler, because the wedge had already been inserted, and but required to be driven home. Easier, because the Country had already tasted of the Tree of Knowledge—with some relish and without ill effects. Trade, revenue, profits, wages had shown an unparalleled expansion; benefits which the Apostles of Free Trade, with perhaps pardonable exaggeration, claimed exclusively as the result of their own particular policy. Peel's preaching and practice had done much to lead the Nation in the right path. There was no great monopoly to defeat.

The powerful Landed Interest had little further to lose. But, nevertheless, the principle of "Free Trade" as applied to commerce and to taxation was by no means fully accepted. Dark anticipations of resulting distress were still rife. The phalanx of the Old Guard, though thinned, was still formidable. Vested interests were ever powerful. Traders and manufacturers, though they were "without exception free traders, were not adherents to free trade without exception"; and were profoundly persuaded that their own case was in its nature exceptional. And, while to us, forty or fifty years after the event, it may seem to have been the easy and the obvious to have made a clean sweep of all these duties, as a matter of fact, it required no slight courage, knowledge, forethought, and industry, to have formulated, to have proposed, and to have carried through, the drastic reforms of 1853 and 1860—those two memorable years, the one the complement and completion of the other.

Then were repealed the few remaining duties on raw materials of manufacture; that on Timber alone surviving until 1866. The numerous import duties on semi-manufactured and on

manufactured goods were repealed, some in 1853, and the rest in 1860. Thus free entry was given to Linen and Cotton, to Woollen and Silken goods, to manufactures of Leather, of Hair, and of Metals, etc.

The Silk trade and the Woollen trade had been specially protected, "nursed and dandled," as Huskisson said, protected and fettered, fostered and hampered. The import of both silk and woollen goods had been practically prohibited. The export of wool, the raw material, was also forbidden. An Act of but sixty years earlier survived in 1853, which prohibited the export of sheep, lest they should carry their wool with them; and, to make assurance doubly sure, the same Act prohibited the shearing of sheep within five miles of the coast. Similarly, the silk trade had been "protected" by the prohibition of the use of printed calicoes for dresses or for household furniture, and in many other ways. Huskisson had reduced the duty on woollen goods to fifteen, and that on silken goods to thirty per cent. Peel had reduced the former duty to ten, and the latter to fifteen per cent. And, even in 1853, the remaining fifteen per cent. duty on silken goods was retained; and that on woollen goods was only

reduced one-half; both, however, to be finally abolished in 1860.[1]

Up till 1860, foreign Fish, Fowl, and Fruits paid toll on entry. Thus, for instance, British and Colonial Pears and Apples, Oranges and Lemons, Butter Eggs and Cheese, Onions and Pomegranates, Sausages and Puddings, Poultry and Game, Capers and Cucumbers, Turtle under the head of "fish," and Anchovies not included as fish, all rejoiced in protective or differential duties.[2] The import duties on these articles of food were halved in 1853 and repealed in 1860. The import duty on all Seeds, such as clover and canary, mustard and carrot seeds, was abolished; the duty on tares had disappeared in 1845!

The acme of absurdity had been reached in the innumerable duties that were levied on the so-called "Fancy Goods"; duties which were abolished, some in 1853, and the rest in 1860.

[1] The fifteen per cent. duty on silk manufactures was then producing £270,000 a year.

[2] The duty on Eggs was 10½*d.* for 120 on Foreign, and 2⅝*d.* on Colonial Eggs, and produced £38,000 a year. The duty on foreign Apples was 6*d.* per bushel, on Colonial, 2*d.*; on Pears, 6*d.* and 3*d.* per bushel, and on Onions the same. Oranges and Lemons were charged at the rate of 15*s.* per 1,000, and the duty produced in 1860, £32,000 a year. Cheese brought in £44,000; Nuts, £12,000; Liquorice, £9,000; Dates, £7,000.

Thus were freed from import duties Paint brushes and Pencils, Sealing-wax and Wafers, Umbrellas and Hats, Toys and Marbles, Beads and Blacking, Jewellery and Watches, Gloves and Embroidery, Spectacles and Opera-Glasses, Harp and Lute strings, and all kinds of music.[1] There was a duty on Pictures of a shilling the square foot up to 200 square feet; on pictures over that size the charge was ten guineas! Ostrich feathers were charged with duty; and the dressed feathers of the Paddy Bird (a duty that might well have been retained and increased) paid three shillings in the pound. These innumerable articles of import were not only taxed, but in many cases they were divided into complicated sub-heads, each with a varying duty attached. Thus on silken goods there were forty-eight different duties, on woollen goods five, on hats and bonnets there were six

[1] Someone repeated to Mr. Gladstone a story of a very deaf old lady who had lately been overheard vehemently protesting to the Custom House officials at Dover her innocence of any contraband articles the while a musical-box was plaintively performing "Home, Sweet Home" beneath the flounces of her dress. Mr. Gladstone heard the story out with compressed lips and flashing eyes. "And this occurred, you say, last year? It is impossible, monstrously impossible. I myself abolished the duty on musical-boxes in the year 1860." The story, if not true, is at least well found.

duties, on boots and shoes sixteen, on beads five, on watches eight, on musical instruments ten.[1] The duties were none of them really remunerative; and, for the most part, produced but infinitesimal amounts—or nothing at all. The many-headed duty on boots and shoes produced £3,335 a year; clocks brought in £7,680; toys, £4,585; books, £313; buttons, £28; blacking, £2; sealing-wax and wafers, £1 each.

The cost in 1860 of freeing trade, by clearing the Tariff of the hundreds of articles to which reference has been made, was only £800,000; a clear proof that the revenue derived from them was obtained at a very costly rate.

The old Colonial system, under which the Colonies or "Plantations" had been fostered or protected by preferential duties, came to an end. Finally, duties were in future to be levied, for the most part, on bulk or on quantity, and not on value—a great simplification in levy.

[1] For instance, the duties on Hats and Bonnets, as stated in the Tariff, were as follows:—"Hats and Bonnets, viz. of chip, 3*s.* 6*d.* per lb. Of Bast, Cane, or Horsehair, not exceeding 22 inches in diameter, 7*s.* 6*d.* per dozen. Exceeding 22 inches, or ornamented, 10*s.* per dozen. Of Straw, 5*s.* per lb. Felt, Hair, or Beaver, or Wool hats, 2*s.* each. Hats made of Silk, Silk-shag laid upon Felt, Hair, Linen, or other material, 2*s.* each."

A Customs System, such as that described, was naturally complicated, costly, and vexatious. It led to delay, confusion, and dispute. It was not easy, even with hundreds of sub-heads, to classify a particular import. The "pickled armadillos," belonging to Mr. Waterton, were detained for many weeks while the Customs Department was making up its mind under what head to charge them. An Egyptian Mummy was imported. Such an article was new to the Tariff. Was it a raw material; was it a semi-manufacture; or was it an article in the last stage of manufacture? The amount of duty to be paid depended materially on the decision. Mature consideration decided that the Mummy was an article of manufactured merchandise! Moreover, duties were retained on articles the identity of which had been lost in the mist of obscurity. "I do not know," said Mr. Gladstone in 1881, in proposing an alteration of the duty on Mum, "what 'Mum' is—and my ignorance is shared by the whole of the Revenue Department—none of whom can throw the slightest light upon the point. I remember when, forty years ago, we began to deal with the Custom Duties of this country, we were confronted with the word 'inkle,' and

no human being of that day entertained the slightest notion of what 'inkle' is."

All this may seem absurd; but minute divisions, sub-divisions, and re-divisions, with the complications they entail, are an essential element in the system itself, and prevail to this day in the Tariff of countries enjoying Protection.

The immense transition that was effected in our fiscal and commercial system in the two years in question, can be most strikingly shown by a few simple figures. In 1852 the total number of articles, or main sub-division of articles, in the Customs List subject to duty was nearly 500. In 1853 140 duties were repealed, and 240 were reduced. But, in consequence of the change from *ad valorem* to rated duties, the enumerated descriptive heads in the Tariff had to be increased. In 1859 the duties, therefore, still numbered some 440; and, in that year, about 300 duties were repealed. In 1861 others followed; leaving, all told, 22 principal articles of Import, with 140 enumerated heads and sub-heads.

Since that date the remaining duties have been further reduced. The repeal of the

Timber duties, in 1866, relieved the List, at one stroke, of the enumeration of no less than 36 different duties on Woods. The repeal of the Sugar duties, in 1872, caused the further extinction of 14 separate import duties; on Sugar itself, and on articles (such as confectionery, preserved fruits, sweets, etc.) made with sugar, and which had to be taxed accordingly. The repeal of the Registration duty on Corn, 1871, similarly relieved 36 articles from duty. For not only were Wheat, Barley, Oats, and other grain taxed; but Biscuits and Bread, Macaroni, Semolina, Sago, Vermicelli, Starch, nay, even "Manna" and Hair powder, of necessity also paid toll, inasmuch as flour formed their principal ingredient.

There were, before the financial proposals of this year added to the list, only eight articles (enumerated under twenty-seven sub-heads) on which import duties were levied for Revenue purposes; namely, Chicory, Cocoa, Coffee, Dried Fruits, Tea, Tobacco, Wine and Spirits. Besides these eight, nineteen other minor imported articles are taxed, such as Beer, Liqueurs. Chloroform, Ether, etc., but with the sole object of protecting the Excise duties on British Spirits

or Beer. The Excise duties (apart from Licence duties, and Railway duty) are practically two: a duty on Spirits, and a duty on Beer. The Excise duties on home-grown Tobacco, and on home-grown Chicory, produce, but £5 and £1,000 respectively.

The Customs Act of 1853 covers some ten pages of small type in its enumeration of articles subject to taxation; the Customs Tariff of 1900 could have been printed on a sheet of note paper.

The re-imposition of the Sugar duties and the re-creation of the export duty on Coal, have added two principal heads and eight sub-heads to the Tariff, in addition to the table of "polarisation" comprising 23 variations of duty. To broaden the basis of taxation, as the phrase is, really means an equivalent restriction on trade. It may be necessary, but it must be disadvantageous; for the imposition of such a duty as the Sugar duty necessarily involves minute specification; and the inevitable complications that ensue from the fact that the duty must be levied, not only on the article itself, but on every article into the composition of which it enters, however minutely.

There was less opening for reform in the

Excise. The crying evils of that description of taxation had been earlier recognised and remedied. But the Excise duty on Soap (a tax on cleanliness), and on Paper (a tax on knowledge), were repealed by Mr. Gladstone; and the Excise was practically left free of all duties but those on Intoxicants.

Thus was brought to completion the policy of free trade, as applied to Foreign imports, and freedom of production as applied to articles of Home manufucture. Thus finally disappeared the old fiscal system, with a Tariff which, with ingenious perverseness, brought under taxation almost everything that the hand of Providence could produce, or the wit of man could devise. A system of checks and prohibitions—tempered only by the smuggler—of Bounties and Protection, which impeded, instead of promoting, commerce. In its place was introduced a simplicity that has long been the envy of other Nations; who have however, unfortunately, not extended to it that imitation which would have been the sincerest flattery.

The idea that lay at the root of Mr. Gladstone's whole Fiscal Policy was, that the true basis of a solid and large Revenue lay in the

extension of Trade abroad and of Industry at home. That full and unrestricted play should be given to Capital and to Enterprise. That taxation should be levied for Revenue purposes alone; and that, whenever an article taxed is both produced at home and imported from abroad, the Excise duty on the former should be equivalent to the Customs duty on the latter. That, as all duties are impediments to Trade, taxation should be, as far as possible, simplified, and its basis narrowed. That no duty should remain in force, unless it produced a substantial sum; and that no duty should be levied which involved costly or vexatious collection. That Excise duties should be confined to Intoxicants; and should be levied on the finished article, not on the raw material. That the Indirect taxation should be concentrated on a few articles of general consumption. That the taxation on these Articles should be kept at such a figure that the consumption would be stimulated and not checked;[1] the object being, not so much that

[1] This principle is not, however, applied in the case of Intoxicants.

"With regard to commodities in general, that are consumed by the public, and that are also taxed by the Exchequer, the Legislature proceeds from the principle that the sum of money, which may be required for the purposes of the State, should be levied from an area of consumption as extended as possible. The principle of Legislation, with respect to Spirits, has rather been, however, that we should raise as much money as we can obtain, but from an area of consumption as small as we can make it; and the only limiting consideration has been that we ought not to stimulate illicit distillation."—*Budget Speech*, 1863, p. 23.

the consumer should, on the whole, pay less taxation, but that he should pay it on a larger consumption. In a word, that the National Revenue should be derived from a few great sources only of taxation; which could themselves be enlarged or diminished, at a minimum of inconvenience to Consumer, to Taxpayer, and to Trade.

It is not my intention to attempt to estimate to what degree and extent the great fiscal and financial changes and improvements of the time, and the adoption of the free trade policy, caused, or added to the prosperity of the Country. It would be very easy to show, as Mr. Gladstone did on many occasions, the essential and vital connection between the growth of the industry of the country and of the national revenue, and those reforms which liberated commerce and simplified taxation; and to

prove[1] that where legislation had been marked and comprehensive, it had been immediately followed by striking and great results.[2]

There were, of course, other factors working simultaneously, and in the same direction—invention, locomotion, communications, cheap postage, gold production, etc.—and I doubt if it is possible to distinguish between the various causes which went to make up a great whole. It is sufficient for me to believe that the particular fiscal and financial reforms in question were good in themselves. And that, by giving

[1] One rather striking series of figures was given by Mr. Gladstone in 1861 to show the actual immediate effects of the Tariff reforms of the previous year. "The total value of imported articles on which taxation had been increased had fallen 17¼ per cent. In the value of the imported articles on which taxation had been left untouched, there was a trifling decrease. In the value of articles imported on which the duties had been reduced but not removed, there was an increase of 17½ per cent. In the value of the imported articles on which the duties had been removed, there was an increase of no less than 40½ per cent."—*Budget Speech*, 1861, p. 43. This, of course, was a comparison on one year only.

[2] In 1864 Mr. Gladstone gave also some remarkable figures, showing the rapid rise of revenue in the previous three years, during which trade had been finally freed, and large remissions of taxation had taken place. The revenue of 1860 (after certain deductions) was £67,719,000; that of 1863 (with similar deductions) was £67,173,000, a decrease of only £546,000; yet during that period taxes to an extent of £6,668,000 had been repealed or remitted.

free play to energy, capital, and skill, they contributed a powerful factor to the situation, and did themselves produce very tangible results, in increased trade, in extended commerce, in greater consumption, in diminished burdens on the taxpayer and on the country, combined with enhanced revenue. The fiscal changes have been steadily progressive, and their effect has been cumulative.

Besides all the other heavy tasks of 1853, a drastic reform of the Customs Laws, combined with the reform and reorganisation of the Customs Establishment, and an improvement in the system of working, was carried through in the year. One of Pitt's greatest reforms was the consolidation of the Customs in 1791. A "bewildering and appalling chaos" had gradually overtaken the system of Customs duties, as duty was added to duty, impost to impost, subsidy to subsidy; some applied to one article and some to another, each duty, impost, or subsidy being separately charged and levied on each article. Pitt substituted a single duty on each article subject to Customs. But successive Chancellors of the Exchequer soon again turned order into chaos. In 1825 a

further consolidation took place, 450 statutes were repealed, and the working enactments were embodied in eleven Acts of Parliament. But the very fiscal reforms of the succeeding years had themselves involved supplementary Act after supplementary Act; and the reforms of 1853 rendered necessary, while they also rendered easier, a further consolidation and codification of the Customs Laws. This was now done by means of two Acts, couched in simple and intelligible language, one embodying the Law and the other embracing the Tariff.

CHAPTER IX.

THE PAPER DUTY

WHILE dealing with fiscal reforms a few words must be said in reference to the repeal of the Paper duty, as it involved a constitutional dispute between the Lords and the Commons.

The Paper duty was the last surviving of those Excise duties on articles of home manufacture and of general consumption, which dated from the beginning of the eighteenth century and were due to the exigencies of the war of the Spanish Succession. Taxes on "abstractions," as Sir Stafford Northcote once called them, which involved the taxation of "Light," of "Air," of "Habitation," of "Cleanliness," and of "Knowledge."

All Excise duties involve strict supervision over, and considerable restriction upon the processes of manufacture. The Paper duty, being an Excise duty, was burdensome and vexatious; enterprise, variety, and improve-

ment were obstructed; the use of paper in connection with other manufactures was discouraged. Being a uniform duty, it pressed most hardly on the cheaper forms of paper—whether in the shape of books and newspapers; of paper-hangings, of band-boxes, or of paper for wrapping up parcels. The Excise duty involved an equivalent Customs duty, which was levied under fourteen heads, and which necessarily brought under taxation not only paper itself—brown paper, waste paper, paper-hangings, and pasteboard—but books, prints, engravings, and drawings.

The repeal of the Paper duty formed part of the Budget proposals of 1860. But as the duty was producing about a million and a quarter a year, its repeal practically involved the imposition of the extra penny of Income Tax. The immediate repeal of the duty was strenuously opposed. All the manifold interests threatened by the Budget concentrated their efforts on this, the weakest spot. As the Budget proposals proceeded, the opposition became more pronounced; especially when it came to be suspected that the Prime Minister was lukewarm, or positively hostile, to the proposal of his Chancellor of the Exchequer.

The majority of 53, on the Second Reading, fell to 9, on the Third Reading. Encouraged by all this, and justified, to a certain extent, by the fact that it was now obvious that more money would be wanted for a Chinese Expedition, the House of Lords threw out the Paper Bill, which, though a part of the financial proposals of the year, had gone up to them as a separate Measure.

Admittedly, the House of Lords had no right to impose Taxation, nor to amend a Money Bill, but they contended that they had a right to reject a measure such as the Paper Bill. The controversy that ensued turned on the question, whether the rejection of a Bill which repealed Taxation was or was not equivalent to the imposition of Taxation. The Prime Minister cheerfully acquiesced in the rejection; the Chancellor of the Exchequer relieved his feelings by an impassioned denunciation of the "gigantic and dangerous innovation." Lord Palmerston endeavoured, in his characteristic fashion, to console Mr. Gladstone. "Of course," said he, "you are mortified and disappointed, but your disappointment is nothing to mine, who had a horse with whom I had hoped to win the Derby, and he went amiss at

the last moment." Lord Palmerston omitted to mention that he himself had been instrumental in "pulling" Mr. Gladstone's horse.

The House of Commons adopted, however, a series of Resolutions which emphasised their "rightful control over taxation and supply," and which declared that "the Commons had in their own hands the power so to impose and remit taxes, that their right as to matter, manner, measure and time, may be maintained inviolate." The following year, therefore, the Customs and Excise proposals of the Budget, including the repeal of the Paper duty, were combined in one Bill; thus placing it out of the power of the House of Lords to reject the financial proposals, except as a whole. This precedent has been followed ever since.

But, apart from this, it was not all plain sailing, even in 1861. The repeal of the Paper duty again met with strenuous opposition in the House of Commons itself. An alternative—the reduction of the Tea duty—was proposed, and the defeat of the Government seemed probable. During the course of the debate, Lord Derby, seated in the Peers' gallery, scribbled a note to Lord Palmerston, "Is it to be Tea and Turn out?" "No,"

came back the answer, "Paper and Stationery" —and so it was, by a bare majority of 15. The Customs and Inland Revenue Bill then went up to the House of Lords, and was accepted with some slight demur. So ended peacefully the Constitutional question, the last Financial dispute, we may safely prophesy, that will ever occur between the Upper and the Lower House.

CHAPTER X.

THE INCOME TAX

DURING the greater part of his career Mr. Gladstone was possessed by an almost passionate desire to repeal the Income Tax.

"I think," he said in 1861, "it would be a most enviable lot of any Chancellor of the Exchequer—I certainly do not entertain any hope that it will be mine—but I think that some better Chancellor of the Exchequer, in some happier time, may achieve that great consummation; and that some future Poet may be able to sing of him, as Mr. Tennyson has sung of Godiva, although I do not suppose the means employed will be the same:—

"'He took the tax away,
And built himself an everlasting name.'"

To us, who have grown accustomed to an Income Tax, and to a very high Income Tax, as an important, and indeed essential part of our National revenue, it may seem somewhat surprising that the great Master and exponent of Finance should have been so insistent on its

abolition. But, if we remember the school in which Mr. Gladstone received his financial training, and if we recall the date at which he first took an active part in public affairs, we cease to be surprised. He had been Peel's Colleague when the Income Tax was re-created in 1842, professedly, and in good faith, as a provisional impost. He, like Peel, had believed it to be a powerful, but temporary, aid called in to meet a national emergency, and one that should be relinquished when the emergency had been met. He had seen it temporarily renewed in 1845, and again temporarily renewed in 1848, in 1851, and in 1852. In his belief, therefore, as he said in 1853, it would not be right that the Nation should be "entrapped unawares into the perpetuation" of the tax; and, indeed, he held that "the perfect good faith of Parliament in its mode of dealing with the Country" was involved in its early and final repeal. This feeling he held still more strongly after 1853, when, on his initiative, the renewal of the tax had been acquiesced in for another seven years on the faith of its ultimate extinction.

He appreciated the unpopularity of the Income Tax. He realised to the full its im-

perfections (far greater in earlier days than now), its inequalities, the injustice of its incidence, assessment, and collection. He believed that these evils were inherent; could not be removed, and could be but little mitigated.[1] He held still more strongly (and in this he was certainly right), that any attempt to introduce an ideal Income Tax, and to try to assess the individual income, instead of taxing income at its source, would be to destroy efficiency without removing inequalities.

Expressing the general view held in 1853, he declared that :—

"The Income Tax is an engine of gigantic power for great National purposes; but, at the same time, there are circumstances attending its operation which make it difficult, perhaps impossible, at any rate in our opinion not desirable, to maintain it as a portion of the permanent and ordinary finance of the country. The public feeling of its inequality is a fact most important in itself. The inquisition it entails is a most serious disadvantage. And the frauds to which it leads are an evil, such as is not possible to characterise in terms too strong." But, exclaimed he, the task of breaking up and reconstructing the Income Tax is beyond the powers of any man. "I will not

[1] On the ground of the evils inherent to an Income Tax, he had suggested to Peel, in 1841, the revival in preference of the House Tax.—*Life of Peel*, ii. 502.

call it a Herculean labour, because a Herculean labour means a labour that Hercules could accomplish, and this I am persuaded he could not."

Further, Mr. Gladstone had persistently in mind, especially in later years, the feeling and knowledge that the large revenue derived from the Income Tax, the facility of its levy, the ease with which it could be adapted to the requirements of the year, made it a formidable enemy to National Economy, by placing a temptation in the way, and by removing an obstacle from the path of expenditure and extravagance.

"Another objection to the Income Tax," he declared in 1858, "is that so long as you consent, without a special purpose, to levy the Income Tax, as part of the ordinary and permanent revenue of the country, so long it will be vain to talk of economy and effective reduction of expenditure. It is a source so productive, an engine so convenient—it is so easy to lay on *1d.* or *2d.* at a time; that so long as you have the Income Tax a part of your ordinary revenue, you need not think of effective and extensive economy." "My growing belief is," he also affirmed, "that if it is the desire of the House to see re-established in public administration those principles of reasonable thrift—those principles of reasonable thrift which directed the government of this country from about the period of the Duke of

Wellington's Administration until the time of the Russian War—it is most questionable whether that object can be accomplished compatibly with the affirmation of the principle that the Income Tax is to be made a permanent portion of the fiscal system of the country, and to be employed, not for the particular exigencies of the moment, but for satisfying the ordinary everyday expenses of the Nation." The most effective way, he argued in 1857, of enforcing economy is to cut down income.

"The question," he said in 1861, "is simply a question of expenditure." "If the country," he went on to say, "is content to be governed at a cost of between sixty and sixty-two millions, or even sixty-four millions a year, then there is no reason why it should not be governed without the Income Tax. If, on the other hand, it is the pleasure of the country to be governed at a cost of between seventy and seventy-five millions a year, it must in my judgment be so governed with the aid of a considerable Income Tax."

His desire, therefore, sometimes sleeping but never dead, was to look upon the Income Tax as an emergency tax; to relinquish it as an ordinary part of the revenue of the country, and to keep it in reserve as a "ready and effective resource, to which you can look as an effectual resort in circumstances of difficulty and trouble."

In order rightly to appreciate the view thus

held, it is necessary to recall shortly the history of the Income Tax; which can be stated in a few words. Pitt, at the crisis of the Revolutionary War, having partly failed in his attempt to obtain, by means of the existing machinery —the so-called "Assessed Taxes"—the necessary revenue from Property, imposed, in 1799, a "Property and Income Tax," at the rate of ten per cent. or two shillings in the pound. Repealed at the Peace of Amiens in 1802, the Tax was re-imposed the following year, and remained in force until 1816. Then, despite the protests of the Government, it was forcibly swept away by the House of Commons amidst a scene of the wildest enthusiasm, and all the books and records relating to it were ordered to be destroyed. The great loss of revenue involved, for years crippled the Exchequer and delayed financial and fiscal reform; but, until Peel arose, no Minister had the courage to suggest the re-imposition of the obnoxious Tax.

In 1842, however, the financial and economic position of the Country being well-nigh desperate, Peel persuaded the House to allow him to re-impose the Income Tax as a temporary measure, for the double purpose of securing a

Surplus and of reforming the Tariff. Imposed for three years, it was, in 1845, renewed for another three years, in order to enable Peel to make a "bold experiment" and to carry considerably further those fiscal reforms which were already bearing substantial fruit. Thus, the Income Tax, originally, under stern necessity, called into existence as a weapon of war, was, under financial necessity, resorted to as an instrument of peace.

The second period of three years expired in 1848; and Lord John Russell, with a deficit of over three millions, proposed the re-imposition of the Income Tax for five years, and at the rate of a shilling in the pound. But so strongly averse was public opinion, that the Government, not thinking it "wise to attempt to force upon an unwilling House an addition to an unpopular tax," agreed to renew it for three years only, at the old rate of sevenpence, leaving the deficit to look after itself.

In 1851, with a large estimated surplus, the Russell Government again proposed the renewal of the tax for another period of three years, and on the old sevenpenny basis. But the Nation was getting restive under these repeated renewals of a burden which had only been ac-

quiesced in as a temporary impost. It was one thing to vote its re-imposition from time to time to meet emergencies or for specific purposes, and quite another to allow it to be indefinitely continued when pressure could no longer be pleaded. The fear on the part of many that the tax would glide imperceptibly into permanency; the desire on the part of others, that Peel's rough-and-ready impost should be reconstructed; the universal feeling that it was unjust as between permanent and precarious incomes, led to a coalition, which dictated the renewal of the Income Tax for one year only; and forced upon the Government a Committee of inquiry into its incidence and mode of levy. This Committee rejected the schemes for reform placed before them, but came to no conclusion themselves. In 1852 the proposals for the readjustment of the tax made by Mr. Disraeli fell with the Budget,[1] and the Income Tax was again renewed for one year only, unreformed, and at the old rate.

This, then, was the position of the Income

[1] Mr. Gladstone, in his article in the *Nineteenth Century* for June, 1887, says that Disraeli proposed to differentiate the Income Tax "without the knowledge of the Board of Inland Revenue"!

Tax in 1853, when Mr. Gladstone came to deal with the whole financial position in a broad and comprehensive spirit. For the fifth time, the Income Tax, now involving some five and three-quarter millions of revenue, was expiring. The Country desired its extinction, successive Ministers were pledged to its Repeal. It "was an impost," said Mr. Disraeli, "which no Minister could adjust, and no People long endure." The Tax, it was universally agreed, was essentially unjust and unequal, and it was apparently incapable of radical reconstruction. It could not be reformed, and it should not be permanent.

Public opinion would, however, have been met by the utilisation of the surplus for the immediate reduction of the tax by a penny or so, and the temporary renewal of the remnant. But this was not Mr. Gladstone's way. He would not be content with "some paltry proposal to shirk the difficulty by simply re-enacting the tax for one year or for two, thereby prolonging the public uncertainty and dissatisfaction"; but he was determined to present "a real substantial plan, under which the Income Tax may, at a given period, if Parliament still so thinks fit, be got rid of." The

Income Tax was therefore to be renewed, but not to be perpetuated. "The prevailing uncertainty respecting it" was to end; and, with this object in view, "effectual measures were to be taken to mark the tax as a temporary tax, and to lay the ground for placing Parliament in such a position that, at a given period, it may, if it still thought fit, part with the tax." Meanwhile, partly in order to defer to public sentiment, a sentiment not much shared by the Chancellor of the Exchequer himself, with respect to the inequality of the tax, namely that it "bears upon the whole too hard upon intelligence and skill, and not hard enough upon property as compared to intelligence and skill," an extension was to be made in the taxation of realised property by means of a Succession duty; whilst savings in the form of Life Insurances were, up to a certain limit, to be exempted from the tax. Finally, the Income Tax itself, during its remaining years of existence, was to be again utilised in the field where its aid had already been so effective, and was again to be "associated with a great and beneficial remission of taxes."

The scheme of combined utilisation and extinction was, as we have already shown, to

cover a period of seven years; and the Income Tax was to be definitely renewed for that period. For the first two years it was to be levied at the old sevenpenny rate, in 1855 it was to fall to sixpence, in 1855 to fivepence, and in 1860 Parliament would be in a position to dispense with the tax. The requisite surplus was, as already explained, to be produced by, on the one hand, savings on the debt charge; and, on the other, by recuperation of revenue and additions to taxation.[1]

The part of the Budget Speech of 1853 in which the whole question of the Income Tax was discussed was a masterly performance. It was remarkable also; inasmuch as it was one of the very few instances on record in which a single speech effected a real conversion of the House of Commons and of Public Opinion on a question of first-rate importance. The Country was firmly convinced that the Income Tax was intolerably unjust as between realised and precarious incomes; and that, if the tax were to be renewed, it must be differentiated. The question was no new one; it had often been discussed before. Mr. Gladstone dealt at great length with the point. He

[1] See p. 15.

examined the Income Tax in minute detail, schedule by schedule, to show that the inequality was far less than was popularly supposed, and that the grievance was founded on no substantial basis.

Turning to the suggested remedy, namely, that incomes should be taxed according to their stability, he proved the impossibility of trying to distinguish between individuals, or classes, or groups; of defining what is an "industrious income, and what is a lazy income"; and demonstrated the injustice of averaging incomes, or of attempting to tax one species of income more lightly or more heavily than another; of saying, "Here you shall be exempt, here you shall pay the exceptional tax." To discriminate between incomes according to their source or durability, would, he argued, be to break up the basis of the Income Tax; would render the tax unfit for service on an emergency, and would throw the whole finance of the Empire into confusion. The real way to deal with the matter was, he urged, not to attempt the impossible, but to look to the general effect of the whole system of taxation, and to find the remedy elsewhere.

The argument came as a revelation; and completely modified the public view of the

question—"a triumph of reason over conviction," as Lord Aberdeen said. Indeed, in regard to the renewal of the Income Tax itself, argument and eloquence prevailed over prejudice, and the Nation, which had earnestly desired immediate reduction or abolition, ungrudgingly agreed to the lengthened continuance of the Tax on its old lines.

But, alas! at the end of seven years, the long-suffering Nation found itself in possession, not of the much-desired Rachel, but of the ill-favoured Leah. In 1860 there was a huge Deficit, instead of the anticipated and necessary Surplus. The Income Tax, as Mr. Disraeli said, "is unfortunately still alive; nay, more, it is a child which has greatly grown." It was at ninepence, instead of at fivepence; and all likelihood of its extinction had to be indefinitely postponed. The era of Peace had been followed by a period of War. The Crimean War, War Office muddling, the Mutiny, the Chinese War, European restlessness, had disorganised the Finances, added to the Debt, increased the Expenditure—and saved the Income Tax.

The desire to extinguish the Income Tax, by carrying out the arrangement of 1853, had,

however, such a hold on the country, that in 1858 the payment of a special War Debt was postponed by Mr. Disraeli in order to enable him to reduce the Income Tax to fivepence, with the view to its possible extinction in 1860. But, without avail; expenditure had increased too rapidly, and too heavily to permit of the relinquishment of the Income Tax; and, in 1859, it had to be raised to ninepence.

CHAPTER XI.

THE INCOME TAX

(continued)

IN 1860, therefore, the Income Tax could neither be repealed nor reduced; and, surviving, it was again utilised for Fiscal reforms. It was raised to tenpence, the highest peace point it had yet reached; and, for the moment, the idea of its early relinquishment was abandoned; though not the hope of, and the desire for, its ultimate repeal. "I should like very much," said Mr. Gladstone in 1861, "to be the man who could abolish the Income Tax. I do not abandon altogether the hope that the time may come. But I am not about to be too sanguine; for, I quote Sydney Smith, who, speaking of a very remote result, says he thinks we had better leave the care of this subject to those little legislators, who are now receiving a plum or a cake after dinner. I am afraid that some such amount of self-restraint

may be necessary with regard to the Income Tax."

Yet, though hope may be deferred, it springs eternal; and Mr. Gladstone began at once to prepare the way for his remote successors.

An association, however, of unlooked-for economy and unexpected elasticity of revenue, soon placed him in a position to deal, himself, effectually with the burden of the Income Tax; and so to handle the finances that abolition was soon again brought within the range of practical politics. We have already seen how the Income Tax was rapidly reduced from the tenpence of 1860 to the fourpence of 1865. In 1863 it again fell to the time-honoured sevenpence. In 1864, Mr. Gladstone, in reducing it to sixpence, expressed a hope that, in the following year, he would be in a position further to reduce it to fivepence, "its legal minimum." Parliament would be thus put in such a position, he said, "that it will have it in its power to consider deliberately, and on principle, what course it shall thereafter pursue, with a view either to the maintenance or the abolition of the Income Tax." "It is not desirable," he added, "that the Income Tax should creep unawares into per-

petuity; that it should be continually dealt with simply by renewals from twelvemonths to twelvemonths, founded on, and perhaps sufficiently justified by, the exigencies of the moment, but having no reference to policy, and announcing to the country no clear, distinct, and decided views on the part of Parliament with respect to the proper mode of dealing with this great instrument of taxation."

But so large was the estimated surplus in 1865, that it was found possible to take off, not only a penny, but twopence. A fourpenny Income Tax involved about five and a half millions of revenue; and so the reduction to fourpence made "the retention of the tax easy if the country desired it to be retained, and its extinction practicable if the country wished it to be abolished." And if—one of those historical "ifs," the contemplation of which is at once so fascinating and so futile—Palmerstonian stagnation and Gladstonian finance had survived in combination a year or two longer, the opportunity would have occurred for the temporary extinction of the Income Tax. But, again, it was not to be.

When, in 1868, Mr. Gladstone returned to Office, though not to the Exchequer, the

Income Tax instead of being at 4*d.* was at 6*d.*, and the national expenditure now far exceeded the limit at which, in his opinion, as expressed in 1864, the impost could be dispensed with. But, nevertheless, before long another attempt was made by the intrepid Chancellor of the Exchequer to take away the Tax, and there is no doubt, but that if he had not precipitated the affair and wrecked the scheme by a disastrous dissolution, he would have actually repealed the Income Tax in 1874. He would thus, as he said in 1853, have placed the weapon on the shelf from which it could be again taken down if unhappily necessity should arise.

When, in 1869, he again succeeded to Office (though not to the Exchequer) he found the Income Tax at sixpence. By 1874 the way had been prepared for action: the tax had been reduced to threepence. At that figure its repeal would involve some five and a half millions of revenue; against this there was an estimated surplus of over five millions. The desired moment had at length come, repeal was within his grasp; his solemn duty, as he considered it, could be fulfilled; the debt of honour could be at last repaid. He definitely pro-

posed, therefore, to the country the abolition of the Income Tax combined with other changes of taxation. But, though the offer was a tempting one, the unpopularity of the Government was too great, and the country rejected the proposal.[1]

Fate was too strong even for Mr. Gladstone. Thrice did he make the attempt, thrice did he fail. First a war, then a change of Government, then the emphatic repudiation of the electorate, brought his scheme to naught. The Income Tax, in spite of him, has fortunately endured, and forms an essential part of the National revenue. And we may safely prophesy that no future Finance Minister will ever desire to rid himself of the Income Tax. The

[1] See Mr. Gladstone's interesting defence of his action (*Nineteenth Century* for June and August, 1887) to which reference has already been made. He there states emphatically that the proposal made was, "according to my conviction, the payment of a debt of honour, and the fulfilment of a solemn duty."

In 1853 the renewal of the Income Tax for a fixed period had, he argued, only been obtained on the basis of gradual reduction and final extinction. Therefore he himself "was the person bound beyond all others to redeem (this debt of honour) when at length it could be redeemed."

Not until 1874 had the actual opportunity occurred. But now "the way had been carefully prepared by the Ministry of 1868–74, through successive reductions of the Tax, from 8*d.* to 3*d.*" "We had the Income Tax," he adds, "lowered below any previous rate; and before us there lay a solidly estimated surplus of six millions."

Tax cannot be spared, and no Chancellor of the Exchequer would spare it if he could. If, in 1853, it were "a colossal engine of finance" when it was producing but five millions and a half of revenue, how much more colossal is it now, when it can be made to produce five times as much. In Peel's time each penny of Income Tax produced but some three-quarters of a million; while now, in spite of the large abatements given, each penny produces a sum approaching two millions and a half.

Continued existence tends to the adjustment of a burden. In its early days, when the Income Tax was looked upon as a temporary impost, its manifold evils were patent and palpable; but the country, as time went on, became accustomed to its existence and inured to its use.

Moreover, Peel's Income Tax, introduced in 1842 as a temporary measure, and founded on the old War Income Tax, itself a temporary measure,[1] was a crude and abrupt sevenpence

[1] The Income Tax Act of 1842 was (with certain alterations in regard to exemptions, etc.) practically a reprint of that of 1806.

Pitt's original Income Tax of 1799 was assessed on the *individual income*, and a return of income *from all sources* was required. The obligation of making a return of the whole income was very unpopular, and led to much evasion; and, in 1803,

on all incomes of £150 and upwards, without exception, exemption, or abatement. Gradually the crooked paths were made straight, the rough places plain. Exemption, Abatement, and Graduation have relieved and eased the burden where it galled the most; and the injustice as between realised and precarious incomes has been largely tempered and remedied, if not removed, by the great extension of the Death Duties.[1]

All taxes are bad and burdensome; but the Income Tax, once irksome and detested, is, as now levied (in time of peace), perhaps the least bad, the least burdensome, and the least unpopular of all our great taxes.

The idea that the Income Tax was a temporary tax, and Mr. Gladstone's idea that he could, and would some day or other repeal it, did much to delay its reform. Nevertheless, many of the improvements which have been

Addington, in reviving the Income Tax after the rupture, substituted *particular returns of income from particular sources* in lieu of a return of the whole individual income. This system still prevails. See DOWELL'S *History of Taxation*, vol. ii.

[1] In 1852 the Income Tax (at 7*d.*) produced a sum of £5,750,000, and the Death Duties £2,500,000. In 1899 the Income Tax (at 8*d.*) produced £18,750,000, while the produce of the Death Duties was no less than £16,000,000. See Appendix A for particulars respecting the Income Tax.

carried out are due initially to Mr. Gladstone himself. He introduced the system of Abatement,[1] he extended the Death Duties, he allowed a deduction for Life Insurance, he improved the system of Collection.[2]

Again, the Income Tax has been repeatedly used as an instrument for the repeal or remission of other taxation. "This," said Mr. Gladstone in 1880, in utilising it for the last time for a fiscal reform, "was the original purpose and distinction of the Income Tax. This is the great glory of the tax,—that it has been the means of enabling us thoroughly to reform our commercial system, thoroughly to relieve the industries of the country, and to bring back into the Treasury of the community, ten pounds and twenty pounds, for every pound which has been levied in the form of Income Tax." But, nevertheless, this action has resulted in the relinquishment of

[1] See Appendix A for Mr. Gladstone's views in reference to Exemptions and Abatements.

[2] In 1863, "a change of great and beneficial importance" was made in the system of the collection of the Income Tax. Up till then, only half the tax due within the year was collected in the year; now, three-quarters of it was to be so collected. In 1869, Mr. Lowe took a further step; and so arranged that the whole of the Income Tax imposed in the year should be collected within the year.

much Indirect Taxation, and has tended to make the Income Tax an ever more essential branch of the National finances.

Indeed, there is some truth in Disraeli's remark in 1873, when the Sugar duty was being lowered to a vanishing point, "that the Income Tax, instead of being an instrument for reforming our tariff, had commenced to be an instrument to destroy it, and that under the influence of the Income Tax, other sources of revenue were constantly disappearing." Or, put in another way, it may be said that its existence and use has tended to redress the inequality that formerly existed between direct and indirect taxation; and has made more equitable the burden of taxation as between the community at large and the propertied classes.[1]

[1] No precise distinction can be drawn between taxes which are indirect and taxes which are direct. But for purposes of comparison, *Direct Taxation* is usually held to include Income Tax, Death Duties, Stamps, Land Tax, House Duty, Licences, etc.; while *Indirect Taxation* means taxes on consumable articles (Customs and Excise, exclusive of Licences, etc.).

On this basis, the proportions per cent. between Direct and Indirect Taxation have altered as follows:—

	1841	1851	1861	1871	1881	1891	1901
Direct	27	33	38	39	40	44	50
Indirect	73	67	62	61	60	56	49

(See Parliamentary Paper 163 of 1896).

Further, the Income Tax, in its earlier years, was looked upon as a tax fixed at a certain definite rate, sevenpence, and producing a specific annual amount, and not as a tax, to be raised or lowered with the varying needs and circumstances of the year. When war came, in 1854, the Income Tax (the recognised War Tax) was naturally utilised, and raised to a high figure. But Mr. Gladstone was the first (apart from war) to resort, in 1859, to what he once called "the simple but very rude process" of adding or of taking off pence in the pound as poverty dictated or plethora allowed; a system which, carried much further by his successors, has also helped to perpetuate the tax by making it a ready resource on an emergency.

In all these divers ways, then, while Mr. Gladstone's dream was to repeal the Income Tax, his fiscal reforms and his financial work have tended to make it permanent.

Mr. Gladstone's desire to abolish the Income Tax was founded on no fundamental objection to the principle of such a tax, nor on any objection to, or dislike of direct taxation in itself. On the contrary, he declared on more than

one occasion, that property ought not to escape its fair contribution towards taxation, but he desired that it should be reached by a less vexatious method. The abolition of the Income Tax ought, he said, to be accompanied or followed by direct taxation of Property through the extension of the Death Duties. In 1853, when providing for its ultimate extinction, he imposed the Succession duty. In 1874, when he was proposing the immediate repeal of the Income Tax, he intended, as we now know, among other changes, to substitute for it drastic Death Duties. They were to have been "reconstructed and enlarged; direct taxation of a kind most vexatious to trade and industry was to be removed; direct taxation, the least of all unfavourable to trade and industry, and going as a direct tax should wherever possible go, straight to property, was to be imposed."

The Succession duty—in other words, a Legacy duty on real property—imposed in 1853, was the first considerable new tax that had been created since the Great War. Pitt had desired, in 1796, to impose a similar duty, along with a Legacy duty,

on Personal property. The latter measure was allowed to pass. But the second Bill was strenuously opposed by Fox and others, on the ground that it would immoderately increase the influence of the Crown, and enable the State to seize upon the whole property of the Nation. England, it was said, while the best country to live in, would now be the worst to die in! The Bill was ultimately passed by the casting vote of the Speaker, whereupon Pitt withdrew it.

The imposition of the Succession duty of 1853 was based on two grounds. First, because it was not considered just that Real property (land and houses) should continue to escape its fair share of Imperial Taxation; the relief of one class of taxpayers involves additional burdens on others; "the exemption of one man," as Mr. Gladstone often argued, "means the extra taxation of another." Secondly, in order, as we have seen, to do something towards making more equitable the burdens on "property," as compared to "personal" incomes. The proposal was hotly opposed, especially by the House of Lords. "The Chancellor of the Exchequer, my lords," said one angry Peer, "will be like a vulture soaring over society,

waiting for the rich harvest which death will pour into his treasury." The Bill, said another, "is one of the most obnoxious, detestable, and odious measures ever proposed." The Bill was, however, passed.

The original estimate of the yield of the duty was put at two millions a year; but it never reached as much as half that sum. The failure was due to various causes, complicated and obscure, and, with the passing of the Estate Duty Act of 1894, but academic. This was one of the most serious financial miscalculations made by Mr. Gladstone. On the other hand, the existence of the Succession duty made easier the complete and equitable reform of the Death Duties in 1894.

CHAPTER XII.

INDIRECT TAXATION

TO turn from the question of Direct to that of Indirect taxation. The objects Mr. Gladstone had in view in reducing the burden of taxation on the great articles of general consumption—other than Intoxicants, which have always had a different measure meted out to them—were these. First, that the consumer should directly benefit by a reduction in the price of the article he consumed; secondly, that the reduction should so stimulate trade and consumption as ultimately and rapidly to bring back into the Exchequer the bulk of the revenue in the first instance relinquished; and, thirdly, that through reductions in these articles the burden of taxation on the poorer classes of the community should be relieved.

Under the seven years' scheme of 1853, the reductions and abolition of vexatious and protective Customs duties were accompanied by a fall in the Sugar duties, and by an im-

mediate reduction in the heavy duty on Tea. In 1860 a bolder line was taken, as we have seen, and the war duties on Tea and on Sugar were actually utilised for the purpose of Fiscal Reforms; reforms which seemed to be of primary importance. But by 1863 the Customs reforms were practically completed, the Paper Duty had been repealed; and, a large surplus being available, the time had obviously come to deal with the two great branches of indirect taxation derived from articles, not of luxury but of increasing necessity—Tea and Sugar. We have already seen how Tea first, then Sugar, and then again Tea, were substantially relieved of the burden of taxation.

"The reduction of duties on articles of extensive popular consumption," he said in 1860, "was not the first, but the last in order of the objects Sir R. Peel had in view; and because he knew, because Parliament that supported him knew, that in point of fact the true secret of improving the condition of the People was not the mere reduction of price in this or that article, but the liberation and extension of trade, and the increase in the demand for articles of consumption which necessarily resulted therefrom. . . . These principles were to diminish or abolish protection, to do away with prohibition, to prevent smuggling, to liberate trade from fiscal fetters, and I

maintain that the mere reduction in the price of articles of consumption, although a proper and beneficial object, is far behind in importance the objects Sir Robert Peel then had in view."

"We propose absolute repeal," Peel had himself said, "expecting from the increased consumption on other articles an equivalent improvement in the revenue."

"With regard to the remission of the indirect taxes, I hope," said Mr. Gladstone in 1861, "that the memorable history of the last twenty years will never be forgotten; for I do not scruple to state, that if you look to its economical profits on the one hand, and then to its political, social, and moral fruits on the other, it is difficult to know to which to give the palm in point of magnitude. If we had not gained one single shilling by the remission of indirect taxation, it would have been worth having, for the sake of the manner in which it has knit together the interests and feelings of all classes of the community, from one end of the country to the other. If, on the other hand, it had had nothing to do with any question of moral and social results, still the merely economical effects, in promoting the material well-being of the people, have been so signal and extraordinary, that we may well rejoice to have lived in a period during which it has been our happy lot to take part in bringing about such changes."

"There cannot," he said on one occasion, "be a grosser delusion than the supposition that the work of Parliament has been to destroy indirect taxation.

The hand with which Parliament has wrought has been a pruning hand; its thought, all along, has been not to destroy the tree, but to strengthen the stock; the aim of the operation has been to augment both size and vigour; and the consequence is that, at this moment when indirect taxation has been destroyed, as the fashionable phrase is, not once but four or five times over, indirect taxation is larger and more productive than at any former period of our history. Its condition recalls to the mind that tree of golden leaves which has been described by Virgil, from which his hero was ordered to pluck a branch, and on whose trunk, the moment one branch had been plucked, another took its place."

In dealing with these taxes, he was insistent also that, where a change was made in the duty, it should be an effective change; and that the whole remission should be concentrated on one article rather than diffused between two.

Both in 1853, and again in the Sixties, Mr. Gladstone's object was to associate in relief Direct and Indirect taxation. Discussing the question in his Budget speech of 1861, he indulged in one of his fanciful, but practical, flights of oratory.

"To many people both direct and indirect taxation, as is natural, appear sufficiently repulsive. As for myself I confess that, owing to the accident of

my official position rather than to any more profound cause of discrepancy, I entertain quite a different opinion. I never can think of direct or indirect taxation except as I should think of two attractive sisters who have been introduced into the gay world of London; each with an ample fortune; both having the same parentage (for the parents of both I believe to be Necessity and Invention), differing only as sisters may differ, as where one is of lighter and another of darker complexion, or where there is some agreeable variety of manner, the one being more free and open and the other somewhat more shy, retiring, and insinuating. I cannot conceive any reason why there should be unfriendly rivalry between the admirers of these two damsels; and I frankly own, whether it be due to a lax sense of moral obligation or not, that as Chancellor of the Exchequer, if not as a member of this House, I have always thought it not only allowable, but even an act of duty, to pay my addresses to them both. I am, therefore, as between direct and indirect taxation, perfectly impartial."

And this line of conduct, whether in cloud or in sunshine, he throughout maintained. The comprehensive scheme of 1853, which provided for the extinction of the Income Tax, was, as we have seen, accompanied by, and was dependent on, the reduction of the Tea and Sugar duties to a low figure.[1] At the same time, the

[1] See pp. 12 and 15.

increase in the Spirit duties was balanced by the imposition of the Succession duty.

When war came, both direct and indirect taxation were called upon to take their share of the burden. In 1854, when the first Budget was introduced, it was still hoped (Aberdeen-like) that actual war might be avoided; and the three millions required was provisionally raised from the Income Tax alone. Under the second Budget, of a few weeks later, the further sum of £6,870,000 was required, and of this, £3,250,000 was to come from the Income Tax, and £3,600,000 from Sugar, Malt, and Spirits.

The following year, war continuing, another twopence was put on the Income Tax, raising it to 16*d.*, to produce two millions; and further taxation was placed on Sugar, Spirits, and Coffee; while the Tea duty (which had been allowed, the previous year, to fall to 1*s.* 6*d.*, and which was to have further fallen to 1*s.* 3*d.*) was raised to 1*s.* 9*d.*; a total of Indirect taxation of £3,200,000. Of the total War taxation imposed and received, some twenty-four millions was received from the Income Tax, and about thirteen and a half millions from Indirect taxation.

During the next two or three years the Income Tax was first reduced to 7*d.*, and then to 5*d.*, and then again raised to 9*d.*; while the Malt war duty was remitted, the Tea duty was reduced to 1*s.* 5*d.*, and part of the war Sugar duty was taken off.

In 1860 the Income Tax, instead of expiring, was raised to 10*d.*; while the remaining war duties on Tea and Sugar were coincidently re-imposed for special purposes.

In 1861, along with the repeal of the Paper duty, the extra penny on the Income Tax specially imposed the previous year was remitted. In 1863 the Income Tax was reduced from 9*d.* to 7*d.*, at a cost of £2,350,000 of revenue; while the Tea duty was reduced from 1*s.* 5*d.* to 1*s.* a pound, at a gross cost of £1,660,000 a year. In 1864 a further penny of the Income Tax was remitted, giving a relief of £1,230,000, and the Sugar duty was reduced by four to five shillings a cwt.—the duty on refined sugar falling from 18*s.* 4*d.* to 12*s.* 10*d.*—at a gross cost of £1,720,000. In 1865 the Income Tax was reduced by a further twopence, bringing it down to 4*d.*, involving a loss of revenue of £2,600,000; while the Tea duty was halved, bringing it down to 6*d.*, at a loss

of £2,300,000. If we add these respective totals together, we find that the fortunes of the two Sisters were nearly equally affected.

During the years 1867 and 1868 the Income Tax alone was utilised, to provide for the exigences of the year. But between 1869 and 1873 the policy of mutual reduction was continued. Indeed, such was the prosperity of the period, that the Income Tax was lowered from 6*d.* to 3*d.*, a point at which it would have been possible to relinquish it altogether; while the Sugar duty was reduced to a point at which it became economically indefensible, and so disappeared altogether in 1874. The Sugar duty was in those days a pure and simple revenue duty, and it was the first tax relinquished on the sole ground that it was no longer required as a branch of the national revenue.

Between 1880 and 1882, Mr. Gladstone's last three years as Chancellor of the Exchequer, indirect taxation was neither remitted nor imposed; and the Income Tax was utilised as a make-weight according to the financial exigencies of each year.[1]

[1] See note, p. 134, for the alterations that have taken place in the proportions between direct and indirect taxation.

CHAPTER XIII.

THE NATIONAL DEBT

"THE reduction of the National Debt," declared Mr. Gladstone in 1881, "is a matter in which I have always felt a great degree of interest and a great desire to see carried through. I have never thought that our operations in this direction have been as large as they ought to have been." And, indeed, in his dealings with the National Debt Mr. Gladstone was neither steadfast, strong, nor fortunate. He never seemed sufficiently to appreciate the real importance of a steady and persistent reduction of National Liabilities; while the two operations which he did undertake with this purpose—the Conversion of part of the Debt in 1853, and the creation of some Terminable Annuities in 1866—were both unsuccessful. It is true that his determination (which contrasted favourably with that of his predecessors) to meet the year's expenditure, extraordinary as well as ordinary, within the

year, by increased taxation if necessary, helped materially to prevent, at least, additions to the debt. But, on the other hand, his action, on more than one occasion, had a very serious and adverse effect on the redemption of the debt. He was, perhaps, too much inclined to believe that, as he said in 1862, "we have sown our wild oats long ago," and that the debt would never be again appreciably increased.

In 1857 he joined with Mr. Disraeli in attacking the special Sinking Fund, instituted by Sir George Lewis for the extinction of the Crimean War Debt; and urged instead the reduction of special War Taxes. In 1858 he supported Mr. Disraeli (then Chancellor of the Exchequer) in his proposal to repeal the self-same Sinking Fund, and to postpone the payment of the War Exchequer Bonds; with a view to apply the three and a half millions thus saved to the reduction of the Income Tax to fivepence—the fetish set up in 1853.

These two occasions were, curiously enough, the only occasions on which Gladstone and Disraeli worked heartily together for the same object. And, indeed, their action, in 1857, gave rise to rumours of an impending coalition between the two Statesmen.

In 1860, and again in 1862, Mr. Gladstone himself also renewed, instead of meeting, a million of Crimean War debt, falling due in that year. In the former year also, as we have seen, he deliberately reduced by two millions the annual sum applicable to the repayment of the Debt, by utilising the relief due to the falling in of the Terminable Annuities (the whole of which then represented capital redemption) for fiscal reforms and the remission of taxation, instead of retaining the debt charge at its former level.

It may, however, be fairly argued (a plea that cannot be urged in justification of the more flagrant predatory actions of others, in 1887 and in 1899) that, in 1860, it was better for the Country, for Trade, and for the Taxpayer, even for Credit, to carry out Fiscal Reforms than to apply the money to the mere "purchase of Consols at 92." But this plea, though adequate for 1860, and in accordance with the public view, can hardly be held to cover the inaction of the succeeding five years. Times were good, Surpluses were large, Fiscal Reforms were completed; yet nothing was done again to place the Debt charge in a favourable position. No proportion at all was attempted

to be kept between remission of taxation and reduction of debt; the whole of the surplus revenue was given away in simple remissions of taxation; and, until 1866, not a sixpence extra was applied to the redemption of Debt. With the debt total more by some millions, and with the annual debt charge less by nearly two millions than before the Crimean War, the Chancellor of the Exchequer might well exclaim in 1865, "I am not able to boast that, as a legislative and deliberative Body, we have, as yet, risen to a sense of the full extent of our obligations with respect to the reduction of the public debt."

In 1866, it is true, there being, apart from Timber, no special claimant on the Surplus, and the country being much impressed by the scare of the near exhaustion of our Coal supply,[1] or of the Coal which could be cheaply won, Mr. Gladstone took advantage of the

[1] Professor Jevons' calculation was, that if the consumption of coal was not checked, the annual consumption by 1871 would be 117 millions of tons; by 1881, 166 millions; by 1901, 331 millions; by 1941, 1,310 millions of tons. The actual results up to date have been, total output, in 1871, 115 million tons; in 1881, 154 millions; and, in 1900, 200 millions of tons. The prophesied geometrical rate of consumption has not been maintained.—*The Coal Question*, p. 240.

opportunity. Coal, he argued, was "a special and peculiar element in connection with the greatness of England; and, being a wasting asset, its diminution should be correspondingly met by a gradual reduction of the National liabilities." He proposed, therefore, to apply half a million a year, by means of Terminable Annuities, to the more rapid extinction of the National Debt, then amounting to £800,000,000. A pill to cure an earthquake!

Having himself assisted to destroy a Sinking Fund, he had no faith in the vitality of a fixed and obtrusive arrangement for the annual repayment of specific debt; but considered, like a later Chancellor of the Exchequer, that a Sinking Fund was "made to be robbed." But he desired to carry further the system of Terminable Annuities, which would work out their redemption in silence, hidden away from the public view. The extinction of the so-called "dead-weight annuity," dating from 1823, liberated a charge of £585,000 a year, and this he proposed to utilise and to increase, in order to inaugurate a system of recurrent rolling annuities, which should be automatically self-replacing. The actual proposal, as we have seen, fell with the Government.

Again, during the prosperous period of 1869 to 1874, the question of the more rapid redemption of the Debt was similarly neglected; and it was not until 1875, when the "New Sinking Fund" was instituted by Sir Stafford Northcote, that anything was done to place the redemption of the debt on a more businesslike footing, or to attempt to bring the annual amount devoted to the debt up to the level of 1858, namely, twenty-eight and a half millions. This level was not actually attained until 1880, or twenty years after the absorption of the Long Annuities. And not long after, first, in 1887, again in 1889, and again in 1899, the principle of the Sinking Fund was invaded, and the fixed debt charge was by three steps finally reduced to twenty-three millions.

Apart from the amount specifically allotted in the Estimates to the purposes of the Debt, the national liabilities may be redeemed by the realisation of casual and unexpected surpluses, which, under the operation of the "Old Sinking Fund," are automatically applied to the reduction of debt. And, as regards the Terminable Annuities, while the annual sum applied to meet them may be the same, that

part of it which represents repayment of capital varies according to the age of the annuities.

But neither of these causes leading to reduction of debt can be especially placed to the credit of the Chancellor of the Exchequer. The real test of the policy pursued by a Chancellor of the Exchequer, in regard to the debt, is to be judged, therefore, not by the total amount of debt which may be actually redeemed during his term of office, but by the amount specifically applied by him, year by year, to the purposes of the debt.

Judged by this test Mr. Gladstone fails. In 1858 the total amount voted for the debt charge was £28,500,000. In 1860 it was reduced to £26,200,000; and at that figure it remained for the next six years. In 1869 it was £26,750,000; and at that figure it remained until 1875.

Again, while between 1857 and 1859, inclusive, debt had been annually redeemed to the extent of four to five millions a year, in the two years 1860 and 1867, the debt was actually only reduced by £300,000. Then things improved, and each succeeding year showed some reduction. But, between 1860

and 1866 inclusive, not more than twenty-one millions of debt in all was redeemed; and of this, thirteen millions was due to casual and unexpected surpluses. In seven years, that is, provision for the redemption of but eight millions of debt was actually made in the Estimates.

The scheme of 1853 for the Conversion of five hundred millions of the National Debt was altogether abortive. The proposal was this. The holders of certain Three per Cent. Stocks, amounting in all to £500,000,000, were given the option of Conversion into either Two and a half per Cent. or Three and a half per Cent. Stock, at the rate of £110 of the former, or £82 10*s.* of the latter, for every £100 of old Stock. Further, the holders of some outstanding Three per Cent. "South Sea Stock," dating from 1720, and amounting to nine and a half millions, were given the option of accepting these terms, or of being paid off at par.

The scheme was launched at a moment when the Three per Cents. were at par, when Treasury Bills were carrying but one and a half per cent. interest, when money

was unprecedentedly cheap. But before the conversion could come into force, War was looming near, and securities had fallen heavily; and, naturally, few holders of Consols cared to avail themselves of the option. In the result, only some three millions of old debt was converted into the new Stocks; and the Chancellor of the Exchequer had to find some eight millions in cash to pay off the holders of compulsorily redeemed "South Sea Stock." And thus, just at a moment when the Exchequer should have been at its strongest, to meet the liabilities of the War, the Balances had been depleted, and the Floating Debt increased. The attempted Conversion was not only a failure, but an embarrassing failure.

CHAPTER XIV.

SURPLUS: ECONOMY

MR. LOWE once defined a Chancellor of the Exchequer as an animal who ought to have a Surplus. "If," said he, "under extraordinary conditions, he has not a surplus, he fails to fulfil the very end and object of his being." And, of late years, it has become the unwritten law that, by some means or other, whether by increased taxation, or perhaps by plundering the Sinking Fund, the year shall, in peace time, begin with a substantial Surplus.

Such an idea was by no means accepted in former days as a financial axiom; and, that it is now firmly held is largely due to the preaching and practice of Mr. Gladstone. Pitt, in startling contrast to his predecessor, Lord North, had, while peace prevailed, held and acted up to this view. But, subsequently, costly war and impoverishing peace, the burden of harassing taxation and of improvident remission, the fallaciousness of a borrowed Sinking

Fund, for many years disturbed the equilibrium between revenue and expenditure. In the early, the roseate days of the Whigs under Grey, surpluses prevailed; but, in their later, their supine days, under Melbourne, no effort was made to meet successive and recurring deficits; and the finances fell into a deplorable condition. Peel, for the first time since Pitt, recognised and acted up to the principle that the first and essential condition of good finance was a surplus.

"The training I received from Sir Robert Peel," said Mr. Gladstone in 1880, "was that the right and sound principle was to estimate Expenditure liberally, to estimate Revenue carefully, to make each year pay its own expenses, and to take care that your charge is not greater than your income." To the principle thus expressed Mr. Gladstone steadfastly adhered throughout his financial career; and to him, it was an unquestioned necessity that each year should, at whatever cost, begin with an estimated surplus of revenue over expenditure. Thus alone could public credit be maintained, debt be regularly reduced, taxation be reformed. In the years 1854, '59, '60, '80, and '81, he did not hesitate, therefore, to impose

taxation to fill the void; and, where the financial proposals of the year created or enlarged the deficit, as in 1853, '60, and '80, taxation to an equivalent or greater amount was, as a matter of course, imposed. Further, when war, or the like, involved unanticipated expenditure during the year, as in 1854, '60, and '82, increased taxation was at once invariably imposed, sufficient, or very nearly sufficient, to meet it.

Indeed, so scrupulous was Mr. Gladstone on the subject, that, though in 1862, as we have seen, he had a bare balance, and the circumstances of the year were peculiar, he actually apologised for not imposing additional taxation in order to create "a modest surplus of half a million." Again, in 1881, when the remission of a penny of Income Tax, imposed the previous year for the specific purpose of enabling the commutation of the Malt duty to be carried through, produced a slight deficiency of two or three hundred thousand pounds, additional taxation was raised to fill the void and to provide "a reasonable surplus." And this, though provision had been made in the estimates for the extinction of three millions of special war legacies.

Whatever he may be in practice, in theory no Chancellor of the Exchequer can fail to be an economist. And Mr. Gladstone was, both in theory and in fact, a stern economist. An economist, indeed, of the old school, to whom any expenditure was an evil, though sometimes a necessary evil, and who, apart from its object, indiscriminately condemned outlay as wasteful and pernicious. Mr. Gladstone began his career, too, when Economy was still within the range of practical politics; and his speeches, his action, and his personal control over the expenditure, from 1860 to 1866,[1] and again from 1869 to 1874, did much to keep the outlay of the country at a moderate level. Since 1874, and especially since 1884, for reasons which are not germane to my subject, the whole National expenditure has risen, enormously and unremittently; and is now altogether on a different plane.

"There is no Country," said Mr. Disraeli in 1859, "that can go on raising seventy millions per annum with impunity—England cannot, and if England cannot, no other countries can."[2] A sentiment that seems to us now

[1] See p. 48.

[2] The actual expenditure of the Country in 1900–1 was £200,000,000.

almost on a par with the exclamation of Bolingbroke, who spoke of the Debt of his time—thirty millions—as a sum that would appear incredible to future generations.

But Disraeli spoke forty years ago; and if the Nation were, as Mr. Gladstone said was the case in 1857, "perfectly reckless with regard to expenditure," what is the present position? Alas! we are none of us Economists now; and we are so deadened to sin, that we have long passed the stage at which, apart from war, an annual expenditure of a hundred millions gave us a sort of mild and pained surprise. And, without doubt, the abnormal growth, especially in the last few years, of the public expenditure, in every branch, if not actually alarming, is at least grave, and calls for serious public attention and examination. The devouring spirit of expenditure is at present all-pervading; it requires to be exorcised.

In Mr. Gladstone's first year at the Exchequer he had to provide for a gross ordinary expenditure of £55,700,000; in his last year at the Exchequer he had to provide for a sum of £85,300,000. In 1860 the gross ordinary expenditure was £69,850,000; in 1865 it was but £65,100,000. In 1869 it was £67,500,000;

in 1874 it was £74,000,000; in 1880 it had risen to £82,000,000; and in 1893, his last year of office, it was £91,300,000. In 1853 the expenditure was normal, moderate, and stationary. Thirty years later it was enormous and rapidly increasing; a matter of real grief to Mr. Gladstone. Indeed, it was something of an irony of fate, that it should have been under the Premiership of the Great Economist, that the first "hundred million budget," that of 1885, should have had to be presented.

CHAPTER XV.

ACHIEVEMENTS AND FAILURES

THE business of a Finance Minister is a two-fold one. To know how to impose taxation when required, in the way least burdensome to the country as a whole, and to the individual taxpayer; and to know how to remit, when remission is possible, in a way that will give most impetus to trade, and most distinct relief to the taxpayer.

Between the time of Pitt and that of Peel, between the time of Peel and that of Gladstone, the finance was hand-to-mouth finance. There was, apparently, in the minds of the successive Chancellors of the Exchequer, no clear-cut system, no settled plan of operations. Peel and Gladstone were, perhaps, chiefly distinguished in that they each had a definite object in view, and were intent on reaching their goal.

Taxation in old days was, as we have seen, both imposed and remitted with but limited

appreciation of the true principles of finance. Peel may be said to have systematised both imposition and remission. His action was experimental, and had the merit of novelty. That of Mr. Gladstone was largely founded on experience; and he himself, on more than one occasion, explicitly disclaimed originality in the matter. Where his genius chiefly came into play was in the choice of the order in which, and the method by which, remission and reform should be accomplished. He was fortunate in that, during nearly the whole of his financial career, he was in a position to remit taxation. He was fortunate enough also to be sufficiently long at the Exchequer, and with sufficiently assured fixity of tenure, to be able to lay down a plan of operations, and to work it out; to be able to deal with one branch of the subject now, and to postpone another, with the confident expectation that he would himself be able to return to it later. Then, in regard to the imposition of taxation, he did not hesitate to impose it whenever necessary; nor to resort to new forms of taxation to supplement the old.

In many a speech Mr. Gladstone laid down the general views which he held in regard to

taxation; and the broad lines on which his financial proposals were based. On occasion, no doubt he propounded a doctrine on too wide, or laid down a principle on too narrow a basis, giving rise to misunderstanding or embarrassment. But he cannot fairly be held responsible for all the waifs and strays of opinion that he may from time to time have harboured and voiced. His general views were broad, statesmanlike, and sound. From the very first he seems to have grasped the main ideas on which his financial work was subsequently based; and though, no doubt, greater opportunities and varying circumstances modified them in detail, his early speeches breathed the spirit by which his task was to the end inspired.

How far did he succeed? Where did he fail? It was hardly to be expected that the author of so many, and such far-reaching Budgets, dealing with every imaginable financial topic, should not have made some mistakes, incurred some failures, met with some rebuffs. Walpole withdrew his enlightened Excise Bill before popular clamour; Vansittart had to part with the Income Tax sorely against his will.

Althorp, Baring, Russell, Wood, Lewis, and Lowe all suffered the humiliation of being obliged to withdraw, or profoundly to modify, a Budget. The Government of "all the Budgets" was Disraeli's apt description of the Russell Ministry that succeeded Peel, and who, in 1848, were three times forced to modify their Budget, and, again, twice in 1851.

> "The Budget *was* a great mistake,
> You call it quite correctly,
> But then admit, for candour's sake,
> We gave it up directly."

Mr. Gladstone himself presented thirteen Budgets, namely, those of 1853, '54, '59, '60, '61, '62, '63, '64, '65, '66, '80, '81, and '82; as well as three Supplementary Budgets, in 1854, '60, and '82. But not once was he forced either to withdraw or substantially to modify his proposals as a whole. Indeed, with very few exceptions, all the proposals he made were carried through. The House of Lords, it is true, threw out his Paper Duty Abolition Bill in 1860; but he had his tit-for-tat with them the following year. The Country rejected his Election Budget of 1874; and, in 1885, his Government were defeated in the House on

their proposals for increased taxation. But both the rebuff and the defeat—like the defeat of the Disraelian Budget of 1852—were due more to political than to financial considerations.

In three considerable matters only can he be said to have failed—all, curiously enough, in connection with the Budget of 1853. The scheme for the reduction of the Interest on the Debt was a costly and embarrassing failure; the Succession duty lamentably failed to realise the financial expectations of its author; the seven years scheme for the extinction of the Income Tax came to naught.

Among smaller questions, Mr. Gladstone was worsted, in 1863, over his proposal to tax Charities and Corporations; and, in the same year, he had to drop his attempt to levy a Licence duty on "Clubs," and his proposal to simplify the Railway duty. In 1853 he was forced by the House to abolish, where he had, for the moment, only intended to reduce, the duty on Advertisements. In 1862, at "the cost of a pang to his self-love," he repealed two small Customs charges that he had imposed in 1860, but which had proved to be more vexatious and inconvenient than profitable. "I, therefore," he said, "with the greatest cheerfulness and good humour, offer up these children of mine on the altar of the commerce of my country." One or two other very minor proposals were at various times made and dropped. But this was all.

We may consider that his repeated attempts to rid the country of the Income Tax were unwise and improvident; and that he should, when he had at his disposal substantial surpluses, have devoted more attention and money to the reduction of the National Debt. But these are matters of opinion, and do not affect the proposition that, in his actual proposals, he was extraordinarily successful.

And what were his achievements? He covered the whole field; nothing was too great, nothing too small for him. He was a financial Nasmyth Hammer, which, with equal facility and equal precision, could revolutionise a Tariff or modify the duty on Dice. His wonderful genius enabled him to make Finance popular; to be understanded of the People. He taught the Country to appreciate its importance. His work was based on the solid rock of a substantial annual Surplus, and on the less easily

secured foundation of strict Economy. The Customs Tariff was completely and finally purged. The remaining duties on food were repealed. Commercial relations with other countries were extended. The last remaining Excise duties, other than those on Intoxicants, were abolished. The Hop duty and the Malt duty were transferred from the initial to the last stage of manufacture. Taxation was placed on a Revenue basis; and was concentrated on a few articles, consumed by all classes. In a word, by simplifying taxation and by narrowing its basis, its foundation was strengthened; it was lightened to the Consumer and made less of a burden on the Taxpayer; less restrictive to Trade and to Industry; cheaper and less vexatious of Collection; more recuperative, and more profitable to the Exchequer.

Mr. Gladstone freely utilised the Income Tax for the purpose of reform and of remission, and improved its incidence; and yet he twice left the finances of the country in such a favourable position, that, had it been so desired, the tax might have been relinquished. He made large remissions of indirect taxation, and greatly reduced the duties on Tea, on

Sugar, and on "Dried Fruits." Indeed, a distinct relation between Direct and Indirect taxation was inaugurated, which has been a sort of standard ever since. Then he extended to Realty the principle of the Death Duties; and did something to reform and to increase the Probate duties. He simplified, extended, and rendered far more profitable and less irksome, the divers Stamp duties on business transactions, introducing especially the system of penny taxation. Besides all this, he abolished, reduced, or reformed innumerable other minor Taxes and Licences. The principle of identical taxation throughout the United Kingdom was established. The Colonies were placed, fiscally, on the same footing as other Countries; and the network of preferential and differential duties in which their commerce had become entangled was finally cut away. The Customs Laws were reformed and simplified.

Mr. Gladstone also carried through two very important reforms which secured proper control over the public expenditure. In 1861 the Public Accounts Committee was created, which was appointed to examine, from year to year, the Audited Accounts of the public expenditure. And, in 1866, with the material assistance

of Mr. Childers, was passed the Exchequer and Audit Act, which, for the first time, constituted a complete system of effective Audit over Departmental expenditure; and secured that the money granted by the House of Commons for the Public Service, should be spent in the manner in which the House intended it should be applied.

In the thirty years between 1852 and 1882, during which the finances of the Country were chiefly under the control of Mr. Gladstone, taxation to an amount of fifty-three millions was imposed, while taxation to an amount of seventy-two and a half millions was remitted; a balance of remission of no less than twenty and a half millions. In 1852 the gross "tax revenue" (Customs, Excise, Stamps, Income Tax, Land tax and House duty) amounted to fifty-four millions; in 1881 it amounted to seventy-one and a half millions. Twenty millions had been remitted, yet the receipts were by seventeen millions greater than before! A clear proof that, on the whole, the taxation relinquished had been of a burdensome character, and that the taxation imposed had been of a more sensible and satisfactory type. No

doubt the increasing prosperity of the country enabled Mr. Gladstone to carry out his financial policy; but his financial policy had unquestionably something to do with the increasing prosperity of the country.

The Chancellor of the Exchequer, said Mr. Cobden, in 1864, "has been a master in the adjustment of the burdens of the country; that is, he found the weight placed upon the animal in such a way as rendered it the most difficult to carry his burden. It was tied round his knees, it was fastened to his tail, it was hung over his eyes, it blinded him, and impeded him, and lamed him at every step. Now Mr. Gladstone took the burdens off these limbs and placed them most ingeniously over the softest possible pad upon the animal's shoulders. But the beast is carrying the burden still, and carrying a great deal more than it did before this beautiful process was commenced." The load no doubt is still immense; but the shifting of the burden has greatly relieved the pressure, while the animal itself is better fed and stronger than of yore, so that the load is considerably less of a real burden on the beast than it was fifty years ago.

Mr. Gladstone's work at the Exchequer has now been dealt with, both as a whole, and in detail. And, as a whole, it must be judged. "Looking at the proposals of a particular year," he said on one occasion, "they may, perhaps, be likened to the stone cast singly by the passing traveller on a heap. Each separate contribution is small; but the general result is that, in course of time, a pile rises which is found worthy to commemorate some renowned action, or some glorious death."

We are not, of course, concerned here with Mr. Gladstone except in his capacity as a Finance Minister. In some ways, his special temperament exactly fitted him to deal, with success, in matters financial. On the other hand, it is possible that his lengthened period at the Treasury, and his absorption in the work of the Exchequer, and the fact that he practically held no other administrative Office,[1] may somewhat have disabled him from taking the same broad view with regard to foreign

[1] Mr. Gladstone, during his three and a half years at the Board of Trade, from 1841–5, was practically assisting all the time in the work of the Exchequer. He was only Colonial Secretary for six months.

questions, and cognate affairs of State, which a different training might have engendered.

But, as a Finance Minister, he was in his element. He had courage — sometimes to rashness. If doubting till convinced, once convinced, he would not look back, and was sanguine of success. He had a quick and wonderfully retentive memory.[1] He delighted

[1] Lord Welby has kindly supplied me with the following: "When, in 1880, Mr. Gladstone was changing the Malt duty into a Beer duty, the problem was how to effect the change without loss of revenue. The Malt duty was a complicated one, and the law imposing it was full of technicality; and the task of working out a simple Beer duty, which would exactly correspond in result with the complicated duty on Malt, was very congenial to Mr. Gladstone. He delighted in Adam Young, the thoroughly competent and able Secretary with whom he discussed the question. Adam Young, on one of these occasions, was describing the manner in which one duty, he thought, might be made a substitute for the other, and, in the course of an explanation, stated a certain figure—4 per cent., I think, on the maltster's profits. Mr. Gladstone was listening attentively, and at one figure he suddenly stopped him. 'Is that so?' said he; 'I thought that figure was 3 per cent.' Young looked puzzled, and said, 'No; the figure was 4 per cent.' 'Go on,' said Mr. Gladstone. But after a minute or two he returned to the subject with a laugh. 'I am very old, and memory has failed me; but forty or fifty years ago I sat for Newark, which is a great barley-growing district, and I had to learn something of the malting trade in the borough, and I thought the figure I gave was that which I learned then.' Old Adam Young laughed in his turn, and said, 'I can quite believe you are right, sir'; and he went on to explain that, in 1832, 3 per cent. would have been the figure,

in work; to him figures and details were fascinating. He would grudge no pains nor time until he had thoroughly mastered the subject in hand, grasped the position, and stored the material away, to be reproduced in debate, lucid and long, with few aids to memory.

On great occasions, he would throw his whole soul into his subject; and, himself, feeling an absorbing interest in it, he would assume that his hearers felt likewise, and would compel their sympathy—one of the secrets of his power. There was great beauty of diction and felicity of expression in these discourses. The wonderful inflection and intonation of voice would safely and smoothly

but that that figure would not apply now. To us who were present it was an interesting episode. The quick manner in which, in an instant, Mr. Gladstone challenged a certain technical figure given him in the course of an explanation where figures abounded; the fact, as it appeared afterwards, that he pulled this figure out of a corner of his memory, where it had been stored away some forty or fifty years before; and the knowledge of his subject possessed by old Adam Young who took on the instant the meaning of the illustration from Newark, and knew what it meant, made it very pretty battledore and shuttlecock. It amused me all the more that Mr. Gladstone had, somewhere about that time, lamented to me the failure of his memory. One felt one wished one had 'half his disease.'"

unravel immense lengths of parenthesis within parenthesis, with perfect lucidity and without strain to his hearers.[1]

As a chief, he was eminently loyal and generous to those who worked for him or under him. A strict and exacting taskmaster, and terrible if misled, it gave him real pleasure to acknowledge and to recall the efficient help and co-operation he had received. He was ready, both publicly and privately, to give a large meed of praise and credit to those who had been engaged with him in his tasks. A noble quality in a public man, and one always repaid by devotion.

It has been said of Mr. Gladstone that he only cared for two things: Finance and the Church of England. "Taxation and Religion," says Mr. Morley in his *Oliver Cromwell*, "have ever been the two prime movers in human revolutions." We are not here concerned with Religion; but, even in these prosaic and comfortable days, Taxation has

[1] The peroration of the great Budget speech of 1853 consisted of 326 words, with no stop in it greater than a semicolon. The speech of 1863 contains two sentences, the one consisting of 114, and the other of 126 words. These are but specimens of his oratorical style.

not entirely ceased to move poor Humanity. There are few things that more directly affect the well-being of the community than its Finances; and the Chancellor of the Exchequer who has lightened the burden or rendered it more easily borne, has deserved well of his Country.

APPENDIX A

THE INCOME TAX

I

THE following are the *Schedules* under which the Income Tax is now charged:—

		Rate of Tax on Incomes exceeding £160 a Year, Year 1899–1900.[1]	*Net* Amount of Property and Income Assessed Year 1898–99.
			£
INCOME TAX: Schedule (A)	In respect of lands, tenements, &c. . . (Deductions allowed to extent of one-eighth on lands and one-sixth on houses. *Vide* Finance Act, 1894.)	8*d.* in the £	170,276,982
Schedule (B)	In respect of the occupation of lands, &c. .	8*d.*[1] ,,	6,159,269
Schedule (C)	In respect of annuities, dividends, &c. . .	8*d.* ,,	39,409,184
Schedule (D)	In respect of professions, trades, employments, railways, mines, ironworks, &c. . .	8*d.* ,,	351,132,745
Schedule (E)	In respect of salaries, public offices, &c. .	8*d.* ,,	43,839,490
			610,820,000

[1] On one-third of the annual value of lands, etc., and on the full value of nurseries and market gardens (Parl. Paper 284 of 1900).

II

The following are *the Rates in the Pound* at which the Income Tax has stood since its original imposition in 1799; together with the changes that have taken place in the *exemptions* and *abatements* allowed:—

Year.	Amount of Duty Assessed.	Rates of Duty.
	£	
1799–1801 (average)	5,970,000	24*d.* on incomes of £200 and upwards. Reduced rates for incomes between £60 and £200. Incomes under £60 exempt.
1802		*Repealed.*
1803	5,340,000	*Re-imposed* at 12*d.* on incomes of £150 and upwards. Reduced rates for incomes between £60 and £150.
1804	4,110,000	Ditto.
1805	6,430,000	Raised to 15*d.*
1806	12,820,000	Raised to 24*d.* and levied on all incomes of £50 and upwards, with abatement on certain incomes between £50 and £150.
1807–15	15,640,000 (in 1815)	Ditto.
1816		*Repealed.*
	Net Produce.	
	£	
1842–4 (average)	5,300,000	*Re-imposed* for three years at 7*d.* on incomes of £150 and upwards.
1845–7 (average)	5,550,000	Ditto.
1848–50 (average)	5,500,000	Ditto.
1851	5,590,000	*Re-imposed* for one year at 7*d.* on incomes of £150 and upwards.
1852	5,670,000	Ditto.
1853	6,890,000	*Re-imposed* for seven years at 7*d.* on incomes of £150 and upwards; 5*d.* on incomes of £100 and under £150, and extended to Ireland.

On incomes of £100 and under £150 at Rate B; on incomes of £150 and upwards at Rate A:—

Year.	Net Produce.	Rates of Duty.	
	£	A. Pence.	B. Pence.
1854	13,680,000	14	9
1855	15,720,000	16	11½
1856	16,040,000	16	11½ until a year after end of war.
1857	7,170,000	7	5
1858	5,460,000	5	5
1859	9,910,000	9	6½
1860	11,060,000	10	7
1861	10,450,000	9	6
1862	10,720,000	9	6

On all incomes of £100 and upwards, with an abatement of £60 on incomes under £200:—

	£	Pence.
1863	8,530,000	7
1864	7,870,000	6
1865	5,500,000	4
1866	5,650,000	4
1867	7,140,000	5
1868	8,629,000	6
1869	7,380,000	5
1870	6,370,000	4
1871	9,930,000	6

On all incomes of £100 and upwards, with abatement of £80 on incomes under £300:—

Year.	Net Produce.	Rates of Duty.
	£	Pence.
1872	6,960,000	4
1873	5,560,000	3
1874	3,890,000	2
1875	3,960,000	2
1876	5,710,000	3
1877	5,730,000	3
1878	9,390,000	5
1879	9,230,000	5
1880	11,200,000	6
1881	9,580,000	5
1882	12,760,000	6½
1883	10,080,000	5
1884	12,010,000	6
1885	15,840,000	8
1886	15,720,000	8
1887	13,950,000	7
1888	12,270,000	6
1889	12,850,000	6
1890	13,300,000	6
1891	13,430,000	6
1892	13,440,000	6
1893	15,337,000	7

On all incomes exceeding £160, with abatement of £160 on incomes exceeding £160 but not exceeding £400; £100 on incomes exceeding £400 but not exceeding £500:—

	£	Pence.
1894	15,860,000	8
1895	16,270,000	8
1896	16,790,000	8
1897	17,500,000 [1]	8

[1] Approximate amounts.

On all incomes exceeding £160, with abatements of £160 on incomes exceeding £160 but not exceeding £400; £150 on incomes exceeding £400 but not exceeding £500; £120 on incomes exceeding £500 but not exceeding £600; £70 on incomes exceeding £600 but not exceeding £700:—

Year.	Net Produce.	Rates of Duty.
	£	Pence.
1898	18,250,000 [1]	8
1899	18,500,000 [1]	8
1900	26,920,000 [2]	12
1901	33,800,000 [3]	14

Since 1857 the Income Tax has been an Annual Tax.

[1] Approximate amounts.
[2] Exchequer Receipts.
[3] Budget estimate.

III

The *total amount of income assessed for Income* Tax and the *produce per penny* has been as follows:—

Year.	Gross Assessment.[1]	Net Produce per Penny.
	£	£
1799	—[2]	250,000[4]
1842	251,000,000[3]	772,166
1853	308,300,000	1,004,468
1860	335,700,000	1,122,258
1870	465,500,000	1,587,596
1880	585,200,000	1,851,077
1890	698,400,000	2,216,000
1899	820,000,000[4]	2,312,000[5]

[1] The figures in this column represent the assessable income before allowance of statutory abatements, etc. There is therefore no relationship between them and the net produce per penny, which latter is the net yield of the tax per penny for each year after all allowances have been made, whether by reduction of the assessment or by way of repayment. (See column four of Part I. of this Appendix for net assessment.)

[2] No figures extant.

[3] Does not include Ireland. The tax was not extended to Ireland until 1853.

[4] Since 1896 the gross assessment under Schedule B is only taken as one-third of the annual value of the land occupied. In 1899 this represented a reduction of £34,000,000 in the gross assessment; but for purposes of accurate comparison the £34,000,000 is included above.

[5] Approximate.

IV

GRADUATION OF THE INCOME TAX

Table showing the virtual rates of Income Tax chargeable on incomes ranging between £160 and £700 when the tax is at 8*d.* in the £, 1*s.* in the £, and 1*s.* 2*d.* in the £ respectively.

Income (before Abatement).	Income (after Abatement).	Virtual Rate of Taxation.		
		When the Tax is at 8*d.* in the £.	When the Tax is at 1*s.* in the £.	When the Tax is at 1*s.* 2*d.* in the £.
£	£	Pence in the £.	Pence in the £.	Pence in the £.
160	—	—	—	—
180	20	0·88	1·33	1·55
200	40	1·60	2·40	2·80
220	60	2·18	3·27	3·81
260	100	3·07	4·61	5·38
300	140	3·73	5·60	6·53
340	180	4·23	6·35	7·41
360	200	4·44	6·66	7·77
400	240	4·80	7·20	8·40
460	310	5·39	8·08	9·43
500	350	5·60	8·40	9·80
560	440	6·28	9·42	11·00
600	480	6·40	9·60	11·20
660	590	7·15	10·72	12·51
700	630	7·20	10·80	12·60

V.

MR. GLADSTONE'S VIEWS ON THE EXEMPTIONS AND ABATEMENTS OF THE INCOME TAX

The Income Tax in 1853, as Mr. Gladstone found it, was the full sevenpence in the pound, on all incomes above £150. In that year he lowered the limit of exemption to £100, just above where it "would trench on the territory of labour." This he did on the ground that the class of persons with incomes between £100 and £150 had benefited more than any other class by the fiscal reforms and trade revival and expansion resulting from the imposition of the Income Tax. But on incomes between £100 and £150 a fivepenny Income Tax only was to be charged; a proportion that was preserved when the tax had to be largely increased for war and other purposes.

In 1863 he changed the system. The limit of exemption was left at £100; the distinction between incomes of £100 and £150 was abolished; and a deduction of £60, before charging the tax, was allowed on all incomes between £100 and £200.

In 1872 the abatement was increased to £80, and allowed on all incomes up to £300. In 1877 the exemption was raised to £150, and abatement given up to £400.

Mr. Gladstone entirely disapproved of this policy of freeing from the Income Tax incomes between £100 and £150.

"Reflection confirmed him," he said in 1882, "in the belief that the reduction in 1853 of the limit of exemption (from £150 to £100) was a wise proposal; and he had to confess, with some regret, that during the existence of a Government, for which he was responsible, retrogression was made from the position which to his mind was distinctly a step in the wrong direction. But a still wider measure—not a step, but a stride—was adopted by the late Parliament (1874–80) when, to his great astonishment, and in spite of the best protest he could make, it immensely restricted the number of persons liable for the tax. He regarded it as extremely doubtful whether the time would come when this would be retrieved, but he hoped it might come." (July 31st, 1882.)

Since then (wisely, as some of us may think, as regards abatement, though hardly as regards exemption) a further step has been taken; and, in 1890, the exemption was extended to all incomes below £160, and the abatement carried up, by graduated steps, to incomes of £700.

The Income Tax, it is generally admitted, must be collected at its source, and not assessed on the individual income. It cannot therefore be a graduated tax in the ordinary sense of the word, but might well be graduated, by abatements, further than it has yet been.

APPENDIX B

THE NATIONAL DEBT

THE following table gives, at certain dates, the amount of the *total gross, and net Debt and Liabilities* of the Country as now computed (see *National Debt Return*, Ch. 350, 1900):—

At March 31st.	Gross.	Net.[1]
1815	900,000,000	—
1842 (January)	847,500,000	838,800,000
1853 (January)	815,700,000	799,000,000
1861	828,000,000	813,900,000
1867	807,400,000	791,900,000
1870	799,600,000	783,800,000
1874	778,200,000	761,100,000
1880	776,500,000	739,500,000
1886	745,000,000	713,500,000
1892	680,500,000	675,300,000
1895	660,200,000	635,000,000
1899	635,000,000	598,000,000
1901	705,700,000	679,200,000
1902 (estimated)	768,700,000	742,000,000

[1] *i.e.* after deducting estimated assets, including the value of the Suez Canal shares.

APPENDIX C

I

PUBLIC ACCOUNTS

IT is almost impossible accurately to compare the Revenue and Expenditure of one year with that of another over any long period of time, inasmuch as the mode and form in which the National Accounts are kept has been frequently and bewilderingly altered.

Up to 1856 the *net* revenue and expenditure of the country only was shown in the published accounts. In that year a change was made. Practically the whole of the gross revenue of the country was then, for the first time, paid into the Exchequer, and the expense of its collection was met by taking Votes in Supply on account of the Revenue Department. Up till that time the expenses of collection had been paid out of the gross revenue, the net revenue, or balance, only being paid into the Exchequer. The result of this change was to add an amount of (at the time) between four and five millions to each side of the account.

The usually accepted basis of comparison has now again become the *net* revenue, inasmuch as it shows more accurately the actual burden of taxation and the real expenditure of the country.

In 1893, for the first time, the Civil Departments were required to surrender the unexpended balances of the sum voted. Various other changes have been made from time to time in the system of accounts and deductions.

The figures given in the text of this Book may, I think, be relied upon as substantially accurate for the purposes of comparison; that is to say, they have been compiled on a standard basis. The figures given in this Appendix are taken from the various *Statistical Abstracts.*

The *Financial Year* now runs from April 1st to March 31st of each year. Up to January, 1854, it was reckoned from December 31st to January 1st following.

Up to the year 1874, the Budget Estimate of Revenue was ordinarily based on the actual receipts of the previous year. In 1874 Mr. Gladstone, in proposing the abolition of the Income Tax, took into account (quite legitimately), in making his calculation, the likelihood of increased receipts in the year from existing taxation. Since then it has become the rule, in framing the Budget Estimate, to take into account the full normal growth of revenue expected to accrue in the year, and to base the estimate on the amount of revenue that, taking everything into consideration, it is thought would be actually received.

II

BUDGET TABLES

REVENUE

	1853.	1860–1.	1866–7.
	£	£	£
Customs	22,506,000	23,305,000	22,303,000
Excise	16,303,000	19,435,000	20,670,000
Stamps	7,149,000	8,349,000	9,420,000
Taxes	3,340,000	3,127,000	3,468,000
Income Tax	5,732,000	10,924,000	5,700,000
Total Tax Revenue	54,929,000	65,140,000	61,561,000
Post Office	2,523,000	3,400,000	4,470,000
Crown Lands (Miscellaneous)	1,544,000	1,848,000	3,403,000
Total non-Tax Revenue	4,067,000	5,248,000	7,873,000
Total Gross Revenue	**59,096,000**	**70,388,000**	**69,434,000**
Total *Net* Revenue	54,900,000	65,900,000	61,960,000

Stamps include Death Duties.
Taxes include Land Tax, House Duty, etc.

EXPENDITURE

	1853.	1860–1.	1866–7.
	£	£	£
Debt	28,055,000	26,335,000	26,082,000
Army	9,425,000	14,970,000	14,675,000
Navy	6,640,000	13,332,000	10,676,000
Civil List and Civil Charges	7,226,000	10,727,000	10,523,000
Collection of Revenue	4,192,000	4,488,000	4,824,000
Total *Gross* Expenditure	**55,538,000**	**69,852,000**	**66,780,000**
Total *Net* Expenditure	51,600,000	65,365,000	61,956,000
War Expenditure	260,000[1]	3,044,000[2]	—

[1] Kaffir War. [2] Chinese War.

Collection of Revenue includes Customs, Inland Revenue, and Post Office.

Navy includes Packet Service for 1853 and 1860, a charge subsequently included under Civil charges and now included in Collection of Revenue.

III

GROSS REVENUE

Year.	Tax Revenue.[1]	Other Receipts.[2]	Total.	Net Revenue.
	£	£	£	£
1853	54,929,000	2,067,000	59,096,000	54,900,000
1860–1	65,140,000	5,248,000	70,388,000	65,900,000
1866–7	61,561,000	7,873,000	69,434,000	61,960,000
1869–70	66,471,000	7,927,000	74,398,000	68,243,000
1873–4	65,355,000	11,002,000	76,357,000	68,746,000
1880–1	68,952,000	14,113,000	83,065,000	74,843,000
1892–3	74,800,000	15,595,000	90,395,000[3]	77,950,000
1899–00	99,630,000[4]	20,210,000	119,840,000[5]	104,200,000

[1] *i.e.* Customs, Excise, Stamps Assessed Taxation, Land Tax, and House Duty.

[2] *i.e.* Business receipts, Post Office, Telegraph, Crown Lands, and Miscellaneous.

[3] Exclusive of a sum of £7,180,000 paid over to Local Taxation Account.

[4] Some £3,000,000 of this was probably due to anticipatory clearings in view of increased taxation.

[5] Exclusive of a sum of £9,900,000 paid over to Local Taxation Account.

The accounts of 1869 and subsequent years are calculated in the *Statistical Abstract* on a somewhat different basis from those of preceding years.

Since 1888 the Local Taxation Account has again complicated the National Accounts, inasmuch as Imperial Revenue (to an amount now of about £10,000,000 a year) is intercepted and paid over to Local Taxation Account.

GROSS EXPENDITURE

(Exclusive of Special War Charges)

Year.	Debt.	War Services.	Civil List and Civil Charges.	Cost of Collection, including Post Office.	Total.	*Net* Expenditure.
	£	£	£	£	£	£
1791–92	9,500,000	6,250,000	2,650,000	—	—	18,400,000
1801–12[1]	19,850,000	37,340,000	5,560,000	2,390,000	65,140,000	62,750,000
1814–15[1]	30,000,000	72,440,000	5,840,000	4,600,000	112,880,000	108,280,000
1825–26	29,240,000	15,000,000	5,820,000	4,050,000	54,110,000	50,060,000
1840–41	29,470,000	14,120,000	5,260,000	3,700,000	52,550,000	48,850,000
1846–47	28,260,000	16,870,000	6,300,000	4,000,000	55,430,000	51,430,000
1853	28,054,000	16,066,000	7,226,000	4,192,000	55,538,000	51,346,000
1860–61	26,335,000	28,302,000	10,728,000	4,487,000	69,852,000	65,365,000
1866–67	26,082,000	25,351,000	10,523,000	4,824,000	66,780,000	61,956,000
1869–70	27,054,000	22,286,000	11,033,000	6,155,000	66,528,000	60,373,000
1873–74	26,707,000	24,441,000	12,731,000	7,611,000	71,490,000	63,879,000
1880–81	29,575,000	25,285,000	17,356,000	8,224,000	80,440,000	72,116,000
1892–93	25,200,000	33,422,000	19,308,000	12,445,000	90,375,000[2]	77,930,000[2]
1899–1900[3]	23,000,000	46,600,000	25,250,000	15,650,000	110,500,000[4]	94,850,000[4]

[1] Inclusive of War Charges.

[2] In addition to £7,180,000 on Local Taxation Account.

[3] Exclusive of War Charges.

[4] In addition to £9,900,000 on Local Taxation Account.

APPENDIX D

THE following are the dates of Mr. Gladstone's various Budget Speeches. The Financial Statement of 1853 and those of 1860–5 inclusive, were republished (revised from *Hansard*) in a separate volume (John Murray):—

1853, April 18th; 1854, March 6th and May 8th; 1859, July 18th; 1860, February 10th and July 16th; 1861, April 15th; 1862, April 3rd; 1863, April 16th; 1864, April 7th; 1865, April 27th; 1866, May 3rd; 1880, June 10th; 1881, April 4th; 1882, April 24th and July 24th.

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